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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1940.

No. 984

EDGAR C. GUTHARD, ACTIVATED SLUDGE, LIMITED, and ACTIVATED SLUDGE, INC.,
Plaintiffs-Respondents,

vs.

THE SANITARY DISTRICT OF CHICAGO,
Defendant-Petitioner.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

ERNST BUEHLER,
910 South Michigan Avenue,
Chicago, Illinois.

EDMUND D. ADCOCK,
33 North La Salle Street,
Chicago, Illinois.

RALPH M. SNYDER,
105 West Adams Street,
Chicago, Illinois.

ARTHUR C. DENISON,
Union Commerce Building,
Cleveland, Ohio.

WALLACE R. LANE,
105 West Adams Street,
Chicago, Illinois.

ELI E. FINK,
33 North La Salle Street,
Chicago, Illinois.

Counsel for Defendant-Petitioner.

BARNARD & MILLER, 33 S. Market St., Chicago. FRAnklin 0562

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THE SANITARY DISTRICT OF CHICAGO,
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PETITION FOR WRIT OF CERTIORARI.

To the Honorable the Chief Justice and the Associate Justices of the Supreme Court of the United States:

STATEMENT OF THE MATTERS INVOLVED.

This litigation is a subject-matter of great public importance. The activated sludge process and apparatus involved in this suit for infringement of patents have been used in disposing of a large amount of the sewage of the City of Chicago and its environs since litigation arose resulting in this Court restricting the use of the waters of Lake Michigan for that purpose.

All except one of the six patents asserted by the original (and present) plaintiffs were held valid and infringed by the District Court (8 F. Supp. 329) and the Court of Appeals for the Seventh Circuit (90 F. (2d) 727), and

an interlocutory decree for an accounting was ordered pursuant thereto. This Court denied certiorari (302 U. S. 736).

There have been no proceedings on the accounting under this decree.

The important question here involves the lately discovered fraudulent concealment and suppression of evidence relating to a defense available to petitioner had the facts been known at the time of trial.

On October 21, 1939, petitioner filed a motion in the Circuit Court of Appeals for leave to present to the District Court a Petition to vacate and reopen the interlocutory decree and dismiss the suit:

(a) Because of the fraud of its former Chief Engineer, A. W. Dilling, in acquiring the rights under the patents asserted shortly after he left its employ, and in instigating this litigation and carrying it on in collaboration with others;

(b) Because of the fraud of respondents (plaintiffs below) in suppressing and concealing evidence with respect to this fraud and the title to the patents asserted.

This leave to present the Petition was granted by the Circuit Courts of Appeals (R. I—435), but the District Court denied leave to file the Petition without hearing any evidence (R. II—885) and its denial was affirmed by the Court of Appeals (R. II—920).

The facts concerning the fraud, concealment and the suppression of evidence were first discovered by petitioner, shortly prior to the presentation of its Petition in the Court of Appeals, from the disclosures in a suit brought by Dilling in the United States District Court for the Northern District of Illinois charging plaintiffs and those associated with them with fraud committed in

an attempt to deprive him of what he claimed was his interest in the title to and recoveries under the patents asserted in the present suit.

Petitioner is here seeking an order of this Court requiring the District Court to take and receive evidence so that petitioner may show the full facts with respect to the fraud, sullied conduct, suppression and concealment of evidence of a character strongly condemned by this Court in the case of *Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240.

The evidence of the fraud and sullied conduct of Dilling and respondents, so successfully concealed from petitioner and suppressed until recently, reveals that petitioner's former Chief Engineer, shortly after he left its employment, went to England and secured an arrangement for the acquirement of such an interest in the patents asserted in the four states of Illinois, Indiana, Wisconsin and Michigan, as to enable him and those he then interested with him, including the original (and present) plaintiffs, to institute this suit. Dilling and his associates concealed and suppressed the real facts with respect to Dilling's reprehensible conduct, his interest in the title and in any recoveries that might be had from your petitioner.

The Petition to vacate the interlocutory decree primarily raises important questions regarding the standard of conduct required of suitors and their counsel in federal courts of equity. The unclean hands of respondents are of two kinds: (1) their conduct in suppressing evidence; and (2) their relations with Dilling, former Chief Engineer of petitioner, who stirred up the filing of this litigation. The evidence to support both of these points was only recently discovered by petitioner. The ultimate ques-

tion is whether or not the lower courts erred in denying the petitioner leave to file its Petition to vacate the interlocutory decree and, for a determination of that question, the perusal of said Petition is invited (R. I—3-102).

The Petition which the petitioner seeks to file and the balance of the Record herein disclose an amazing series of events. The material allegations of said Petition are not controverted by anything appearing in the Record. The District Court, in passing upon the motion for leave to file, stated that it considered the matter "as if the petition had been filed and its sufficiency were attacked by motion to strike or dismiss" (R. II—885). No answer to said Petition was filed by respondents, no trial took place, no witnesses testified and no evidence was introduced other than the excerpts from certain records which were submitted by each of the parties, which excerpts together with said Petition constitute the Record herein.

The petitioner is a municipal corporation serving a population of about 4,000,000 persons and having as its principal function the efficient and sanitary disposition of the sewage produced in its territory. It is essentially an engineering corporation and its Chief Engineer is a statutory public officer holding an important position (R. I—4). Albert W. Dilling, a civil engineer and attorney-at-law, was Chief Engineer of the Sanitary District from December 16, 1920 to July 21, 1922 and remained as consulting engineer until November 15, 1922 (R. I—4). When Dilling commenced his employment, he knew nothing about sewage disposal, the patents in suit, the plans and problems of petitioner, or the possible infringement of said patents by the plants being and about to be constructed by petitioner (R. I—6).

Dilling's term in office was a crucial one for during that period suits were instituted in this Court by certain

States on the Great Lakes against the petitioner and the State of Illinois to enjoin the diversion of any water from Lake Michigan and it became clear that petitioner might be required to construct vast works to dispose of sewage artificially (R. I—7). It became Dilling's responsibility as Chief Engineer to devise or select an artificial method of sewage disposal, and to select one which would not be the subject of patent or other litigation. Dilling, as Chief Engineer, supervised the construction by petitioner of two experimental plants using the activated sludge method and he placed one into operation (R. I—7-8, 113-264). Dilling participated in the consideration of the method of sewage disposal which should be adopted by petitioner for its large North Side plant and concurred in the recommendation of a commission of engineers that the activated sludge method should be used (R. I—7, 258-261). During his tenure in office Dilling's department commenced the preparation of the plans and specifications for the North Side activated sludge plant which, together with the two experimental plants which Dilling helped construct, were the only plants found herein to infringe the patents in suit (R. I—8, 262).

The patents in suit and their importance were brought to Dilling's attention when one of the engineers in his department wrote him "that the matter is of sufficient importance and might be the cause of a claim of sufficient size to warrant considerable detailed attention on our part" (R. I—6, 7, 270). As Chief Engineer, Dilling furnished Activated Sludge, Limited, the then English owners of the patents in suit, at its request, with an important report of petitioner respecting certain of its sewage disposal problems (R. I—266).

The result was that by virtue of his employment in the important and trusted position of Chief Engineer, Dill-

ing acquired information which he never would have otherwise acquired relating to the plans of petitioner to construct huge sewage disposal plants which might infringe the patents owned by Activated Sludge, Limited.

It was not until late in 1938 that petitioner discovered for the first time, and the subsequent investigation which petitioner made revealed, that Dilling, shortly after he left petitioner's employment, went to England where he made an agreement with the owners of the patents in suit to acquire an interest in the patents and to form an enterprise for the exploitation of the patents within the States of Illinois, Indiana, Wisconsin and Michigan, the immediate object of the enterprise being to assert the patents against the petitioner (R. I—8, 80-81). Upon his return to Chicago, Dilling formed a syndicate with a patent attorney, Albert G. McCaleb (a member of the firm which has represented respondents throughout this litigation) and two financiers, Franklin Mayo and Edgar C. Guthard, to furnish the legal work and money for the adventure (R. I—8-9, 81; II—634). Guthard went to England where he obtained a so-called exclusive license agreement which, in legal effect, constituted an assignment of the patents for the States of Illinois, Indiana, Wisconsin and Michigan (R. I—11). In order to succeed in their venture, the syndicate was confronted with the problem of preparing documents which would legally protect their respective interests, thereby requiring the written recognition of Dilling's interest, and at the same time with the necessity of preparing documents establishing their right to sue which would forever conceal Dilling's interest and role in initiating the enterprise and suit (R. I—9-10, 14). The anxiety to conceal Dilling, in the interest of the success of their enterprise, caused the co-adventurers to evolve the plan and scheme of having the exclusive license

agreement run to Guthard as an individual and not as trustee despite the fact that the original agreement between the four co-adventurers provided that Guthard would hold all rights acquired by him as trustee (R. I—10), and despite the fact that another concealed agreement made by Activated Sludge, Ltd. and three of the co-adventurers contemporaneously with the license agreement acknowledged Guthard's trust capacity (R. I—39). The license agreement was to serve as the muniment of title which would establish respondents' right to sue and yet conceal Dilling.

In order to protect their respective legal interests, the four members of the syndicate (Dilling, Guthard, Mayo and McCaleb) created a Massachusetts Trust to which they assigned all their right, title and interest, legal and equitable, in the so-called license agreement (R. I—14, 15, 47). This means that the Massachusetts Trust, called Activated Sludge Processes of America, should have filed this suit. However, if that had been done, Dilling's relation to the suit would have been revealed by virtue of the fact that he was a one-fourth owner of the beneficial certificates issued by the Massachusetts Trust (R. I—50). Consequently, all knowledge of the Massachusetts Trust and the assignment of the patents to it were carefully suppressed and concealed from the petitioner throughout this litigation (R. I—15).

On August 9, 1924, the co-adventurers learned that Clyde L. Day, then attorney for the petitioner, was in England and might possibly approach Activated Sludge, Limited. The co-adventurers feared that some one at Activated Sludge, Limited, might mention Dilling's name in connection with the enterprise. Accordingly, Mr. McCaleb immediately wrote Activated Sludge, Limited, that Mr. Day should not be "given any inkling that Mr.

Dilling is in any way connected with or interested in the matter of establishing your patents in this country" and "we are being extremely careful to do and say nothing which will in any way hamper or embarrass us in our campaign against the Sanitary District" (Respondents' brief filed below, Nov. 24, 1939, p. 8; R. I—16).

In furtherance of their plan, the respondents caused their attorneys, the same attorneys who have represented the respondents throughout this litigation, to send petitioner formal notice of infringement which described Guthard as the exclusive licensee and Activated Sludge, Limited, as the owner of the patents (R. I—16-20). One month later suit was filed by Activated Sludge, Limited, as alleged owner of the patents, and Guthard, as exclusive licensee. The assignment of the patent rights for the territory to the Massachusetts Trust, executed by Guthard and his associates less than two months prior thereto, was concealed (R. I—18-19).

The Petition describes, and we shall not repeat here, the subsequent events under which respondents sought to eliminate Dilling from the enterprise and ineffectually endeavored to convey legal title in the patents to Activated Sludge, Inc., a Delaware corporation (R. I—24-31). On January 25, 1928 Activated Sludge, Inc. filed a verified "original bill in the nature of a supplemental bill" which again alleged a false chain of title in an effort to conceal Dilling's relation to the enterprise (R. I—19-20).

The result was that when the trial took place in 1933 respondents had effectively concealed and suppressed from petitioner any inkling of the fact that its former Chief Engineer was responsible for the filing of this suit. During the trial petitioner's counsel asked certain questions of two witnesses, Mayo and Guthard (the financial backers of Dilling's enterprise), and had they answered

those questions truthfully, the disclosure of Dilling's relation to the enterprise would have followed. The witnesses, however, testified falsely and the concealment of Dilling was perfected (R. I—22-23).

The active concealment and suppression of Dilling was carried over to the suit for infringement brought by the Activated Sludge, Inc. against the City of Milwaukee and in that case respondents' counsel went so far as to misquote a document not in the record in order to further the suppression of Dilling (R. I—109-111).

Petitioner's counsel defended this suit with all reasonable diligence and they had no reason to suspect that respondents were fraudulently suppressing evidence of potential defenses of unclean hands and lack of title which would have been available to petitioner had it known the facts concerning Dilling's relation to the enterprise. Petitioner's failure to make an earlier discovery of respondents' unclean hands was due to respondents' fraudulent suppression of the evidence relating to their unclean hands (R. I—35-36).

Petitioner would probably never have learned the truth about Dilling and his relation to this suit had not Dilling and his associates become involved in a dispute which resulted in Dilling's filing suit against his former associates (R. I—23-31). From the disclosures made in said Dilling suit, petitioner learned for the first time that its former Chief Engineer was responsible for the acquisition of the patents in suit by respondents and the instigation of this litigation, that Dilling himself had a substantial interest in the patents and that Dilling claimed in his suit that he had been fraudulently deprived of such interest by the respondents herein, their attorneys and associates (R. I—24, 25).

For the first time petitioner learned from the said

Dilling suit about all of the documents which had been carefully concealed from the petitioner and courts throughout this proceeding (R. I—24-25). Petitioner further learned from the Dilling case that when Mayo and Guthard were confronted by Dilling's attorney with their testimony in this case, they were forced to admit that they had not told the truth in this case regarding the ownership of and their interest in the patents (R. I—31-33).

The first knowledge acquired by petitioner of the Dilling suit occurred when Dilling served notice on defendant on August 4, 1938, that he claimed to have an interest in the patents superior to that of Activated Sludge, Inc. (R. I—24). As soon as this notice was obtained petitioner made a prompt and thorough investigation of Dilling's pending suit (R. I—24). The Petition sought to be filed narrates the diligent efforts of petitioner's counsel to ferret out the facts and also sets forth the obstructive tactics employed by respondents' counsel in endeavoring to continue the suppression of vital evidence (R. I—24-35). The legal problems were varied and intricate and required exhaustive research. Almost every day new facts and new approaches were discovered. As soon as the newly discovered facts were gathered and interpreted in the light of the law, a complete mosaic was pieced together of the fraud perpetrated upon the petitioner and courts. The necessary documents were prepared with due speed and the procedure to set aside the decree was put into motion by the filing of petitioner's motion in the Circuit Court of Appeals on October 21, 1939 for leave to present its Petition to the District Court.

JURISDICTION OF THIS COURT TO REVIEW THE DECREE IN QUESTION.

The jurisdiction of this court is invoked under Section 240 (a) of the Judicial Code as amended by the Act of February 13, 1925, c. 229 (28 U. S. C. A. Sec. 347). The decree which the petitioner seeks to have reviewed was entered by the Court of Appeals of the Seventh Circuit on March 27, 1941 (R. II—920).

THE QUESTIONS PRESENTED.

1. Whether petitioner is entitled to an order of this Court requiring the District Court, on the basis of the allegations in the Petition sought to be filed, to take and receive evidence permitting it to show the full facts with respect to the fraud, sullied conduct, suppression and concealment of evidence?

2. Should the respondents in this case be entitled to an accounting in view of their sullied conduct in suppressing and concealing evidence from the petitioner and courts? This question was presented to but not discussed by the lower courts in their opinions.

3. If the respondents were guilty of reprehensible conduct in suppressing and concealing evidence from the petitioner and courts, should such conduct bar the respondents from relief assuming that the evidence sought to be suppressed by respondents may have been immaterial and might not have affected the result of the case? This question was presented to but not discussed by the lower courts in their opinions.

4. In view of the allegations in the Petition sought to be filed by the petitioner setting forth the reprehensible

conduct of respondents in suppressing and concealing evidence, was it not an abuse of judicial discretion for the lower courts to deny leave to the petitioner to file said Petition? This question was presented to but not discussed by the lower courts in their opinions.

5. Should this suit be dismissed on account of the unclean hands of respondents arising from the fact that this suit was instigated and prosecuted through the action of A. W. Dilling, former Chief Engineer of the petitioner, who thereby frustrated one of the purposes of his former employment, namely, the construction of sewage disposal plants free of patent litigation?

6. Can the equitable owner of patents bring suit for their infringement? Was legal title to the patents in suit vested, prior to the filing of this suit and when the interlocutory decree was entered, in a Massachusetts Trust called Activated Sludge Processes of America or in Activated Sludge, Inc.? Should the Petition have been filed and evidence heard thereon in order to determine the soundness of the attack made by the Petition on the finding in the interlocutory decree that Activated Sludge, Inc. owned the legal title to the patents in suit?

7. Can the respondents be permitted to charge the petitioner with notice of the evidence on which its Petition is predicated and with negligence in failing to make an earlier discovery of such evidence, especially in view of the fact that the petitioner was prevented from discovering such evidence by the respondents' active suppression of such evidence?

8. Are the respondents entitled to charge the petitioner with negligence in failing to make an earlier discovery of the evidence on which its Petition is predicated or in failing to make an earlier presentation of its Petition to the court in view of the fact that the Record

fails to disclose that the respondents were put to any disadvantage as a result of the delay?

9. Does the Petition sought to be filed by the petitioner and the Record herein disclose that the petitioner was guilty of negligence in failing to make an earlier discovery of such evidence or in failing to present its Petition to the Court with due speed?

10. Does the Petition sought to be filed by petitioner comply with the rules as to the form of bills of review, petitions for rehearing and similar petitions?

REASONS FOR THE ALLOWANCE OF THE WRIT.

1. The decision of the Circuit Court of Appeals in this case is in conflict with the decisions of the Court of Appeals for the Sixth Circuit and of this Court. In a series of cases filed by Keystone Driller Company (*Keystone Driller Co.* v. *The Byers Machine Co.*, 71 F. (2d) 1000; certiorari denied, 293 U. S. 572; reversing 4 F. Supp. 159, 160; *Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240, 244, 246; affirming 62 F. (2d) 48, 50; rehearing denied 64 F. (2d) 39, 40), it was decided that the federal courts of equity are closed to granting affirmative relief to all suitors who attempt to suppress or conceal evidence relating to defenses; and that it made no difference that such evidence sought to be suppressed or concealed by plaintiffs, if it had been known to and introduced by the defendants during the trial, might not have affected the result. The suitor's misconduct in itself barred relief.

The Circuit Court of Appeals in its "opinion" stated that the opinion of the District Court "decided every question presented here in accordance with our views" (R.

II—920). This question concerning the applicability to this case of the *Keystone Driller Company* cases was presented by petitioner to the Circuit Court of Appeals as a "primarily controlling point" but it was not decided or even discussed in the opinion of the District Court. The District Court's opinion assumes that if the evidence sought to be suppressed by respondents would not have affected the result had it been introduced during the trial, evidence of respondents' suppression of such evidence is immaterial (R. II—899).

It is important that this Court, by reversing the Seventh Circuit in the instant case, make it unmistakably clear that the principle announced in the *Keystone Driller Co.* cases is a fundamental canon of equity jurisprudence in federal courts, exacting of litigants the high standard of conduct established in those cases.

2. The decision of the Circuit Court of Appeals in this case is in conflict with the decision of the Court of Appeals for the Eighth Circuit in *Trice* v. *Comstock*, 121 Fed. 620. In that case it was held that the duty of an employee to be loyal and faithful to his employer "is as sacred and inviolable after as before the expiration" of his employment (p. 625) so that an employee cannot, after his employment ceases, take advantage of information acquired by him during his employment to prevent his former employer from accomplishing certain of the purposes of their former relationship. While this decision of the Court of Appeals for the Eighth Circuit was principally relied upon by petitioner in order to sustain its argument on this point, neither the District Court nor the Circuit Court of Appeals refer to this leading case in their opinions and those opinions are in conflict with that decision in holding that Dilling, after his employment

ceased, was not barred from instigating this suit by organizing and promoting an adventure for that purpose, and as a result of which this suit was actually begun (R. II—897-9).

3. The decision of the Circuit Court of Appeals in this case is in conflict with the decisions of this Court holding that the plaintiff in a patent infringement suit must own the legal title to the patents in suit and that it is not sufficient for the plaintiff to hold merely an equitable title (*Crown Dye & Tool Co.* v. *Nye Tool and Machine Works,* 261 U. S. 24, 40). The District Court's opinion disposes of our contention that Activated Sludge, Inc. lacked legal title by stating that, in equity, Activated Sludge, Inc. would be deemed to hold sufficient title to maintain this suit (R. II—891-2). This is in conflict with the decision in the *Crown Dye & Tool Company case* that only the legal owner of the patents in suit may recover in a patent infringement case.

Wherefore, your petitioner prays that the Writ of Certiorari be issued under the seal of this Court, directed to the United States Circuit Court of Appeals for the Seventh Circuit, commanding that court to certify and send to this Court on a day to be designated, a full and complete transcript of the record and of all proceedings in the Circuit Court of Appeals had in this cause, to the end that this cause may be reviewed and determined by this Court; that the judgment of the Circuit Court of Appeals be reversed and that the order entered by the District Court on July 5, 1940, denying your petitioner leave to file its certain Petition to set aside the interlocutory decree entered herein, be set aside; that the District Court be ordered to file said Petition and proceed

thereon; and that your petitioner be granted such other and further relief as may be proper.

Respectfully submitted,

THE SANITARY DISTRICT OF CHICAGO,

By ERNST BUEHLER,
EDMUND D. ADCOCK,
RALPH M. SNYDER,
ARTHUR C. DENISON,
WALLACE R. LANE,
ELI E. FINK,
Counsel for Defendant-Petitioner.

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Plaintiffs-Respondents,

vs.

THE SANITARY DISTRICT OF CHICAGO,
Defendant-Petitioner.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

OPINIONS OF THE COURTS BELOW.

The District Court for the Northern District of Illinois, Eastern Division, filed on July 5, 1940 a memorandum opinion and order which has been reported in 33 Fed. Supp. 692 (R. II—885).

The opinion of the Court of Appeals for the Seventh Circuit has not yet been reported in the official reporter but is reproduced in the record (R. II—920).

JURISDICTION.

The jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code as amended by an Act of February 13, 1925 c. 229 (28 U. S. C. A. Sec. 347). The decree of the Court of Appeals which petitioner seeks to have reviewed was entered March 27, 1941 (R. II—920).

STATEMENT OF THE CASE.

In order to appreciate the full extent of the reprehensible conduct of respondents in seeking to suppress and conceal from petitioner and courts evidence which might have affected the result of this suit and in order to understand that respondents came into court with unclean hands due to their association with Dilling, the former Chief Engineer of petitioner, and in order to make it clear that respondents' concealment of Dilling led them to plead and rely on a false chain of title, it would be necessary to present a fuller statement of the facts than is set forth in the foregoing petition (pp. 4-10) but for the sake of brevity we refrain from a more detailed statement and again make reference to the Petition sought to be filed which is reproduced in the Record, commencing at page 3.

SPECIFICATION OF ERRORS.

The lower courts erred in denying petitioner's motion to file its Petition to reopen and vacate the interlocutory decree entered herein and to dismiss this suit. If this Court should grant this writ of certiorari, petitioner intends to urge as errors of the lower courts the matters raised in the foregoing Petition under the heading "The Questions Presented" (pp. 11-13).

ARGUMENT.

1. The respondents should be barred from all relief in this suit on account of their sullied conduct in suppressing and concealing evidence from the petitioner and courts and it makes no difference that such evidence, if it had been known to and introduced by petitioner during the trial, might not have affected the result.

The opinions and decisions of the Court of Appeals for the Sixth Circuit (opinions by Judge Hickenlooper) and of this Court in a series of cases instituted by Keystone Driller Co. against The Byers Machine Co., Osgood Co. and General Excavator Company, decisively preclude the respondents from obtaining any relief in this court of equity. These decisions have been hailed as making a salutary extension of the unclean hands doctrine and in requiring of litigants in federal courts of equity a higher standard of conduct. Prior to those decisions it had been generally thought that if a plaintiff concealed or suppressed potential evidence, such conduct would not close the doors of the court to him unless the evidence so suppressed and concealed was material to the issues of the case. The *Keystone Driller Company* cases have declared the law to be otherwise and have decided that a plaintiff's conduct in suppressing evidence—and that conduct alone—precludes him from obtaining any relief and it makes no difference that the evidence sought to be concealed would not have affected the result.

In *Keystone Driller Co.* v. *General Excavator Co., et al.*, 290 U. S. 240, it appeared that plaintiff had earlier filed another suit against The Byers Machine Co. in the North-

ern District of Ohio for infringement of certain patents, including the Downie Patent, which was originally issued to Downie, the principal officer of the plaintiff. The Byers suit resulted in the entry of an injunction and order for accounting (4 F. Supp. 159) and that decision was affirmed by the Court of Appeals for the Sixth Circuit (44 F. (2d) 283). While the Byers case was pending on appeal, the same plaintiff filed these two suits in the same district against General Excavator Co. and Osgood Co. on a number of patents, including the Downie Patent. Motions for temporary injunctions were forthwith made, reference being made to the adjudication of the patents in the Byers case, but these motions were denied upon the defendants' posting bonds. During the trial of these two cases the defendants discovered and introduced evidence that prior to the time Downie applied for his patent he heard of a possible prior use at Joplin, Mo. by one Clutter; that Downie's anxiety as to whether Clutter's prior use might cast serious doubt upon the validity of his patent caused him (after his patent was issued) to find Clutter; and that for a consideration promised or paid to Clutter, Clutter signed an affidavit that this Joplin use was only an abandoned experiment and Clutter agreed to keep his work secret. Although the District Judge characterized Downie's conduct as "highly reprehensible," he found that there was no suppression of any *material* evidence and entered decrees for the plaintiff.

On appeal the Court of Appeals for the Sixth Circuit reversed the District Court and held that inasmuch as the plaintiff tried to suppress evidence which caused it anxiety as to the soundness of its own case, the plaintiff was guilty of such reprehensible conduct that the doors of the court of equity were closed to it. The court said (62 F. (2d) 48, 50):

"The next insistence of the plaintiff is that the alleged misconduct should not be held to constitute a bar since it related to an immaterial matter; the Joplin use being in truth and in fact but an abandoned experiment. * * * This seems to us to be immaterial. We are not here and now concerned with a question of anticipation, but of conduct, and certain it is that there was enough in the information communicated to Downie to cause uncertainty and anxiety to him and to the plaintiff, and to bring about the action finally taken. If the conduct was reprehensible, it matters not that it was really unnecessary.

The plaintiff also contends that neither in the Byers Case nor in the present cases was there any obligation upon it to make disclosure of those possible prior uses which might affect the validity of the patents which it owned. This is true; but there was an obligation, in all righteousness and good conscience, not to do that which was done—not to build up a defense against the supposed prior use by buying an affidavit phrased as plaintiff wished it to be phrased, and possibly not in strict accord with the facts, by purchasing Clutter's silence, or at least making him an adverse witness for others, * * *"

On petition for rehearing in the same cases, the court reiterated that its decision was based on the plaintiff's sullied conduct in trying to suppress evidence and not on the sufficiency of such evidence as a meritorious defense in the cases and said (64 F. (2d) 39, 40):

"The doctrine which we have applied is simply that if one, as actor, seeks to set the judicial machinery in a court of equity in motion upon grounds in respect to which his conduct is sullied, he will find the doors of the court closed against him. The bar is said to be 'in limine'. The plaintiff is repelled as of the date of the filing of the bill and in respect of the maintenance of the action then instituted, because he does not then appeal to the court as one in whose behalf the largely discretionary powers of the court should be exercised. The fact that delay is thereby occasioned, or that the plaintiff has thereby suffered

> a loss of time and expense, is immaterial. The court has simply said: 'We will not hear you in this action although, not being a general avenger of the wrongs of humanity, it may be that you will not be in the future, and would not have been in the past, repelled on account of your conduct.'
>
> The opinion already rendered sufficiently answers the contention that the reprehensible conduct was not really necessary and the Joplin use was not really an anticipation."

In its argument before this Court in the *Keystone Driller Co.* case the plaintiff apparently accepted the opinion of Judge Hickenlooper as accurately stating the law and argued that its reprehensible conduct related only to one of the five patents in suit so that the other four separate causes of action should not be barred on account of its unclean hands in connection with one. This Court said (290 U. S. 240, 244):

> "Plaintiff contends that the maxim does not apply unless the wrongful conduct is directly connected with and material to the matter in litigation and that, where more than one cause is joined in a bill and plaintiff is shown to have come with unclean hands in respect of only one of them, the others will not be dismissed."

This Court answered that contention by pointing out that the five patents were so interrelated that plaintiff's sullied conduct in regard to one patent sullied its four other causes of action. That this Court was fully in accord with the opinion of Judge Hickenlooper is made clear by the following language (p. 246):

> "Had the corruption of Clutter been disclosed at the trial of the Byers Case, the court undoubtedly would have been warranted in holding it sufficient to require dismissal of the cause of action there alleged for the infringement of the Downie patent."

As soon as the defendant in the Byers case learned about the disclosures in the other two cases concerning the attempted suppression of evidence regarding Clutter's prior use, but before the appeals in those cases were decided, the defendant in the Byers case obtained an order from the Court of Appeals directing the District Court to reopen the case for the purpose of receiving and considering evidence regarding the alleged prior use and suppression of evidence relating thereto. This is the same relief sought by petitioner in this proceeding. After considering this new evidence, which was substantially the same evidence on that subject offered in the General Excavator and Osgood Company suits above mentioned, the District Court made findings that while the plaintiff's conduct in trying to suppress the evidence of Clutter's prior use was "inexcusable," it was "wholly unnecessary" because such evidence did not reveal anticipation of the Downie Patent. The District Court concluded that "there was no suppression of evidence materially affecting the defendant's rights" (4 F. Supp. 160). The District Judge certified his findings to the Court of Appeals but no order was entered and neither party took an appeal. The Court of Appeals refused to consider the matter in the absence of any final order or appeal therefrom (63 F. (2d) 996). As soon as the Court of Appeals decided the cases in 62 F. (2d) 48, the defendant in the Byers case moved the District Court to dissolve the injunction and dismiss the suit on the ground that the District Court's decision on the rehearing was contrary to the decision of the Court of Appeals in 62 F. (2d) 48. The District Court, however, refused to follow the decision in 62 F. (2d) 48 and on appeal the Court of Appeals summarily set aside the order of the District Court and remanded the cause with instructions to dismiss it. (71 F. (2d) 1000.) Certiorari to this Court was denied in 293 U. S. 572 and the case was

subsequently dismissed for want of equity by the District Court, which ended the Byers litigation.

The Byers litigation is strictly analogous to the instant case. In the Byers case the plaintiff obtained an interlocutory decree which was affirmed by the Sixth Circuit Court of Appeals. The defendant had no knowledge of its possible defense based on Clutter's prior use and it had no knowledge of plaintiff's activities in concealing Clutter's prior use. Similarly, in this case, the respondents obtained an interlocutory decree which was affirmed by the Circuit Court of Appeals and the petitioner had no knowledge of Dilling's relation to this case or of respondents' conduct in suppressing the true chain of title, the concealed documents and other evidence which might have informed the petitioner of Dilling's relation to the case. Then, through the litigation involving General Excavator Co., Byers learned about Clutter's possible prior use as well as the action of Keystone Driller Co. in suppressing such evidence. Similarly, through the evidence introduced in Dilling's suit against his co-adventurers, we have lately discovered evidence of Dilling's relation to this case as well as the conduct of respondents in concealing such evidence. Byers Machine Co. obtained leave to and did introduce the newly discovered evidence of plaintiff's reprehensible conduct and the evidence of Clutter's prior use. Despite the prior decision in the *General Excavator Co. case,* the District Court held that the evidence of Clutter's prior use was insufficient to establish a defense and consequently the evidence of plaintiff's reprehensible conduct was immaterial (4 Fed. Supp. 160).

Similarly, in this case, we obtained leave from the Court of Appeals to present our Petition for filing to the District Court and the District Court (without hearing any evidence) found that the Petition did not offer to introduce

any material evidence, despite the decision in the *Keystone Driller Co.* cases that the immateriality of the suppressed evidence was of no importance. Upon appeal of Byers Machine Co. the Sixth Circuit Court of Appeals summarily reversed the District Judge (71 F. (2d) 1000) and certiorari was denied (293 U. S. 572). Similarly, in this case, we ask this Court to reverse the lower courts and direct that our Petition be filed and that evidence be taken thereon.

It should be noted that the evidence which Keystone Driller Co. sought to suppress related to a *possible* prior use and that the District Court held that such evidence was insufficient to prove prior use. The courts of review did not question the District Court's decision as to the immateriality of the evidence sought to be suppressed but held that plaintiff's conduct, having for its purpose the suppression of such evidence—and that conduct alone—precluded it from obtaining any relief.

The decisions below in this case are in irreconcilable conflict with the decisions in the *Keystone Driller Co.* cases. The District Court's opinion, which was apparently adopted by the Court of Appeals, concludes (R. II—899):

> "* * * finally that the new evidence is not competent, relevant or material, and that if it were produced and received it would in no wise justify a reopening of the decree."

The lower courts completely overlooked the force of the *Keystone Driller Co.* cases in deciding that even though the newly discovered evidence would furnish petitioner with no defense of unclean hands arising out of Dilling's relation to the suit, respondents' conduct, in attempting to suppress and conceal such evidence, in itself constitutes a bar to recovery in this suit. We ask this

Court to require the Seventh Circuit Court of Appeals to recognize and apply to this suit the commendable principles enunciated in the *Keystone Driller Co.* cases.

2. The respondents should be barred from all relief in this suit for the reason that it was instigated and prosecuted through the action of A. W. Dilling, former Chief Engineer of petitioner, who learned about the activated sludge patents, the sewage disposal plants found herein to infringe said patents and petitioner's vulnerability to patent litigation during his employment by petitioner.

If Dilling, during the period of his employment by petitioner, had organized a syndicate which acquired the patents in suit and caused this case to be filed against his employer, it is clear that Dilling and his associates would not be permitted to maintain their suit and it would be dismissed (*American Circular Loom Co.* v. *Wilson,* 198 Mass. 182, 84 N. E. 133, 135). Should a different result obtain by reason of the fact that Dilling's employment terminated shortly prior to the time he organized the syndicate which acquired the patents for this territory in order to bring this suit?

Trice v. *Comstock,* 121 Fed. 620 (C. C. A. 8), is a leading case holding that the duty of an employee to be true and faithful to his employer "is as sacred and inviolable after as before the expiration" of his employment (p. 625) so that an employee cannot, after his employment ceases, take advantage of information acquired by him during his employment to prevent his former employer from accomplishing certain of the purposes of their relationship. In that case the plaintiffs were in the business of finding purchasers to buy real estate which they held under options or bought after they found customers. The plaintiffs hired the defendant, Comstock, to procure

prospective purchasers and Comstock showed the property to various prospects. Then the defendant terminated his agency and although the plaintiffs were still trying to sell the property, the defendant, Comstock, and his brother, purchased it from the owners. The court held that the defendants, Comstock and his brother, held the title in trust for the plaintiffs. The court relied on basic principles of public policy and said (pp. 622-623):

> "For reasons of public policy, founded in a profound knowledge of the human intellect and of the motives that inspire the actions of men, the law peremptorily forbids every one who, in a fiduciary relation, has acquired information concerning or interest in the business or property of his correlate from using that knowledge or interest to prevent the latter from accomplishing the purpose of the relation. * * * This inexorable principle of the law is not based upon, nor conditioned by, the respective interests or powers of the parties to the relation, the times when that relation commences or terminates, or the injury or damage which the betrayal of the confidence given entails. It rests upon a broader foundation, upon that sagacious public policy which, for the purpose of removing all temptation, removes all possibility that a trustee may derive profit from the subject-matter of his trust, so that one whose confidence has been betrayed may enforce the trust which arises under this rule of law although he has sustained no damage, although the confidential relation has terminated before the trust was betrayed, although he had no legal or equitable interest in the property, and although his correlate who acquired it had no joint interest in or discretionary power over it. The only indispensable elements of a good cause of action to enforce such a trust are the fiduciary relation and the use by one of the parties to it of the knowledge or the interest he acquired through it to prevent the other from accomplishing the purpose of the relation."

In repudiating the argument that the termination of

the agency terminated the agent's duty of loyalty to his former employer, the court said (p. 625):

> "Nor is it any defense to the suit to enforce this trust that the agency had terminated before the confidence was violated. The duty of an attorney to be true to his client, or of an agent to be faithful to his principal, does not cease when the employment ends, and it cannot be renounced at will by the termination of the relation. It is as sacred and inviolable after as before the expiration of its term."

The value of *Trice* v. *Comstock* is enhanced by respondents' admission that "that decision is, of course, clearly right" (their brief filed below April 19, 1940, p. 80). Respondents' only answer to *Trice* v. *Comstock* is that the facts are different in this case. Another quotation from *Trice* v. *Comstock* will make manifest how close the facts in that case are to this one (p. 624):

> "By means of this agency he learned what he probably never would have known otherwise, the location, quality, value, products, and probable income of the 1,925 acres of land in controversy. One of the objects of the agency which the complainants gave him was to enable them to sell this land. The subsequent purchase of it by Comstock prevented the accomplishment of this end. Could he lawfully take the information and advantages which Trice and Beamer conferred upon him through this agency to the end that they might make a sale of this land by means of his services under it, and then use this information and these advantages to make such a sale impossible, to deprive his principals of all the benefits which they hoped to derive from the payment of his expenses, and the exhibition of this land to the possible customer? Could he lawfully appropriate to himself the land and all the benefits derived and expected from the agency? The answers to these questions do not seem to be difficult or doubtful. The law imposed upon this agent, Comstock, the duty to use all the knowledge and all the benefits he derived from his agency to accomplish

the purpose of his principals, and it implied an agreement on his part that he would faithfully discharge this duty."

Applying the facts in this case to the first part of the foregoing quotation, the language therein may be paraphrased as follows:

> By means of this agency Dilling learned what he probably never would have known otherwise,—the nature, value, utility and probable infringement by the activated sludge plants in controversy of the patents in suit. One of the objects of the agency between the Sanitary District and Dilling was that plants of this character as recommended, laid out, planned or constructed, should not be the subject of future patent or other litigation. The subsequent purchase of the patents in suit by Dilling and institution of this suit against his former employer were an effort by Dilling to prevent the accomplishment of this object. Could Dilling lawfully take the information and advantages which the Sanitary District conferred upon him through this agency to the end that the Sanitary District might construct activated sludge plants free of claims and demands for alleged patent liability and then use this information and these advantages to make such an object impossible? The answers to these questions do not seem to be difficult or doubtful.

Trice v. *Comstock* has been cited in over seventy-five other cases without disapproval and its reasoning is irrefutable. Dilling's conduct in acquiring an interest in the patents in suit and causing a "campaign" to be waged against his former employer which resulted in the filing of this suit is nonetheless reprehensible and shocking to a court of equity merely because his agency terminated a few months before he went to London on his hostile venture. The English owners of the patents in suit were always friendly and had expressed their willingness to license petitioner on a reasonable royalty basis

(R. II--803, 825, 833, 838) and the petitioner was entitled to have that situation remain undisturbed by the activities of its former Chief Engineer, using the knowledge he secured as Chief Engineer, in acquiring an interest in the patents and actually bringing about the filing of this litigation.

The lower courts in their opinions make no reference to *Trice* v. *Comstock*. The decisions below are in hopeless conflict with the decision of the Eighth Circuit Court of Appeals in *Trice* v. *Comstock*. We urge this Court to direct the Seventh Circuit Court of Appeals to apply to this case the salutary principles enunciated in *Trice* v. *Comstock*.

3. Even though it may be argued that Activated Sludge, Limited or Activated Sludge, Inc. is the equitable owner of the patents in suit (which is not true), it is well-settled that the equitable owner of patents cannot maintain a suit for their infringement.

The District Court concluded (R. II-891-2) that although Activated Sludge, Limited, may not have acquired legal title to the patents by virtue of the agreements executed on January 27, 1927, those agreements, when read together, indicate an intention to transfer the title to Activated Sludge, Ltd. and, despite the fact that such intention was not carried out in any agreement, Activated Sludge, Ltd. should, in equity, be considered the title owner.

That the plaintiff in a patent infringement suit must be the legal and not merely the equitable owner of the patent in suit is held in *Crown Dye & Tool Co.* v. *Nye Tool & Machine Works*, 261 U. S. 24, in which Chief Justice Taft said (pp. 40, 43, 44):

"The law as to who should bring a suit at law for damages by infringement of a patent is clearly and correctly stated in Robinson on Patents, Vol. 3, Sec. 937, as follows:

'With a single exception the plaintiff in an action at law must be the person or persons in whom the legal title to the patent resided at the time of the infringement. An infringement is an invasion of the monopoly created by the patent, and the law which defines and authorizes this monopoly confers only upon its legal owners the right to institute proceedings for its violation. These owners are the patentee, his assignee, his grantee, or his personal representatives; and none but these are able to maintain an action for infringement in a court of law.'

* * * * *

But it is urged that, under Equity Rule 37, every action must be prosecuted in the name of the real party in interest; and, therefore, as the plaintiff is the beneficial owner of the claims for past infringements, it should be permitted to sue in a court of equity. The equity rule was not intended to set aside a policy and rule having its source in the patent statutes, and cannot affect this case. The rule laid down by Circuit Judge Blatchford in *Gordon* v. *Anthony, supra,* applied to both actions in equity and law, and grew out of the sections of statutes quoted by him and not since amended.

* * * * *

As the owner of the patent is not a party to this bill, the result is that on no ground can the bill of the plaintiff be sustained, and that the motion to dismiss should have been granted."

From the foregoing it follows that Activated Sludge, Ltd. failed to become reinvested with the legal title to the patents in suit and if it became the equitable owner of the patents, such equitable interest was not sufficient to maintain this suit. Activated Sludge Processes of America, the Massachusetts Trust, owned the title to these patents for the State of Illinois when this suit was commenced, when the supplemental bill was filed and

when the interlocutory decree was entered herein. The only reason why Activated Sludge Processes of America was not made the plaintiff in this case was that Dilling owned one-fourth of the beneficial interest therein and it was feared that petitioner might thereby learn the important role played by its former Chief Engineer in the institution of this litigation.

4. The opinions below reveal that the lower courts failed to comprehend the basic issues.

That the Court of Appeals completely misapprehended the Record and the proceedings below is at once made apparent by its erroneous statement that the District Court heard "voluminous evidence" (R. II—920). Contrary to the mistaken assertion of the Court of Appeals, the District Court heard not a word of evidence and petitioner was not allowed to take the testimony of any witnesses.

The failure of the Court of Appeals to appreciate the significance of the *Keystone Driller Co.* cases is further indicated by its statement that the District Court "decided every question presented here in accordance with our views" (R. II—920). The fact is that whereas the *Keystone Driller Co.* case was presented to both of the lower courts, their opinions fail to disclose that they gave any consideration whatsoever to that case or the principles therein decided.

A case of such moment as this one and involving such flagrant disregard of ethical standards promulgated by this Court for litigants seeking affirmative relief in equity, is deserving of more considered study by the Court of Appeals than is shown by its opinion (R. II—920).

Respectfully submitted,

ERNST BUEHLER,
EDMUND D. ADCOCK,
RALPH M. SNYDER,
ARTHUR C. DENISON,
WALLACE R. LANE,
ELI E. FINK,
Counsel for Defendant-Petitioner.

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, A. D. 1940.

No. 984.

EDGAR C. GUTHARD,
ACTIVATED SLUDGE, LIMITED, and
ACTIVATED SLUDGE, INC.,
Plaintiffs-Respondents,

vs.

THE SANITARY DISTRICT OF CHICAGO,
Defendant-Petitioner.

BRIEF ON BEHALF OF THE RESPONDENT, ACTIVATED SLUDGE, INC., IN OPPOSITION TO THE DEFENDANT'S PETITION FOR A WRIT OF CERTIORARI.

Since the above entitled litigation was first instituted in 1924, the Sewerage Commission of the City of Milwaukee and the Sanitary District of Chicago have cooperated in

resisting the plaintiff's claims of infringement under the patents in suit and have employed the same counselors.

They have previously made two attempts to get the patent questions involved in this litigation before the Supreme Court on writs of certiorari.* Both of the previous petitions for writs of certiorari were denied.

As a basis for this third effort to get this patent infringement suit before the Supreme Court, counsel for the Sanitary District of Chicago concocted a motion or a petition for leave to file a petition to vacate a decree entered on February 8, 1935 and affirmed by the Seventh Circuit Court of Appeals on June 16, 1937, and to reopen the case for a further trial upon allegedly newly discovered evidence.

This motion was denied by the District Court. It was then made the subject matter of an appeal to the Seventh Circuit Court of Appeals. On March 27, 1941 the Seventh Circuit Court of Appeals affirmed the decision of the District Court in a short opinion adopting and approving the reasons given by his Honor, Judge Lindley, for denying the defendant's motion.

The pretense of counsel for the Sanitary District of Chicago is that in denying their motion for leave to file a petition to vacate and reopen, the District Court and the Court of Appeals flagrantly disregarded various well established principles of law.

In reality these principles of law have no applicability to the facts of the case. The real facts have no relation to the principles which counsel for the petitioner claim to have been disregarded and violated by the District Court and by the Court of Appeals.

Counsel for the petitioner have cleverly adopted an in-

* City of Milwaukee vs. Activated Sludge, Inc., 293 U. S. 576 Sanitary District of Chicago vs. Activated Sludge, Inc., 302 U. S. 736.

genious stratagem by which to circumvent or conceal the real situation.

Their stratagem is to say at about the outset of their petition for a writ of certiorari (page 4) that:

> "The material allegations of said petition" (to vacate the decree and reopen) "are not controverted by anything appearing in the record. The District Court, in passing upon the motion for leave to file, stated that it considered the matter 'as if the petition had been filed and its sufficiency were attacked by motion to strike or dismiss' (Record II—885). No answer to said petition was filed by respondents, no trial took place. No witness testified and no evidence was introduced other than the excerpts from certain records which were submitted by each of the parties, which excerpts together with said petition constitute the record herein."

The fact is that the records of the trials of the Milwaukee litigation and the Chicago litigation in which the defendants were represented by the same counselors, occupied more than eighteen thousand pages of printed matter. The plaintiff's main reliance in opposition to the defendant's motion for leave to file its petition to vacate and reopen was the trial records comprising these eighteen thousand pages.

The "record" which the petitioner presents to this court shows on page 105 that the plaintiff, long in advance of the hearing upon the defendant's motion for leave to file its petition to vacate and reopen, gave notice that it would rely upon and refer to these eighteen thousand pages of trial record and the briefs in the Milwaukee and Chicago litigations. These trial records and briefs were available to the District Court and were available to the Court of Appeals. Nevertheless they have not been included in the so-called "record" presented to this court.

The result is that what counsel for the petitioner refer to as "the record herein" is not the record at all,—but

only a fragment of the record. As a matter of fact, the plaintiff's main reliance in opposition to the defendant's motion for leave to file its petition to reopen, was the trial records and the briefs in the Milwaukee and Chicago litigations. The reason for this was that the trial records and the briefs in these cases so completely answered the allegations upon which the defendant based its motion for leave to file its petition to reopen. Nevertheless, counsel for the petitioner have now managed their presentation of the matter to this court as to exclude from your Honors' observation and consideration the great bulk of the matter upon which the plaintiff has heretofore relied in opposition to, and upon which the District Court and the Court of Appeals have relied in denying the defendant's motion for leave to file its petition to vacate and reopen.

The fact is, therefore, that the "record" which is presented to this court upon the petition for a writ of certiorari is not at all the record which the District Court had before it, nor the record which the Court of Appeals had before it in denying the defendant's motion for leave to file its petition to vacate and reopen.

In an effort to give your Honors the impression that their motion for leave to file a petition to vacate and reopen should have been treated simply as a bill of complaint in which the sufficiency of the allegations were in question upon a motion to dismiss, counsel for the petitioner say that in passing upon their motion the District Court stated that it considered the matter "as if the petition had been filed and its sufficiency were attacked by motion to strike or dismiss." In so doing, they quote a phrase which appeared in Judge Lindley's opinion.

There are many reasons for maintaining, as we do, that Judge Lindley neither treated the facts alleged in the defendant's petition as true, nor was warranted in accepting

the factual allegations of the defendant's petition as true.

One of the reasons for our view is that the law would not have permitted Judge Lindley to accept the facts alleged in the petition as true, despite convincing evidence to the contrary.

A second reason which confutes the defendant-petitioner is that the order with which Judge Lindley concluded his opinion was a denial of the defendant's motion for leave to file its petition (page 899 of the record presented by the petitioner). It was not the grant of any motion by the plaintiff to dismiss or to strike the petition as would have been the case if the matter had been treated or should have been treated in the manner claimed by the defendant-petitioner.

A third reason which contradicts the defendant-petitioner's intimations in this regard, is the memorandum-opinion of Judge Lindley. We have marked in our copy of this opinion one hundred and seven items of fact which Judge Lindley garnered,—not from the defendant's petition—but from the records of the prior litigations,—with which he contradicted or explained away the factual allegations of the defendant's petition to vacate and reopen. We shall not encumber this brief by quoting these one hundred and seven factual findings which Judge Lindley derived from the records of the prior litigations, rather than from the defendant's petition, with which to contradict or explain away the allegations of the defendant's petition. What we have in mind will be sufficiently indicated by quoting the first ten of these factual findings, all of which are quite extraneous to the defendant's petition to vacate and reopen, and as employed in Judge Lindley's opinion beginning on page 887 of the so-called "record" as presented by the petitioner to this court.

1. "A suit similar to this for infringement in favor

of the same plaintiff against the City of Milwaukee was pending at all times after institution of this cause."

2. "The trial occurring in 1929, four years prior to that of the instant suit."
3. "Counsel for defendant in this trial participated actively in that trial also."
4. "At that time the court received in evidence the license or assignment from Activated Sludge, Limited to Guthard."
5. "And a modification thereof."
6. "Both of which were later received in evidence by this court at the trial of this cause."
7. "That Guthard had made an express cancellation was known to all counsel."
8. "Furthermore, the document bears a memorandum in the handwriting of counsel for defendant, raising a question as to whether such cancellation was sufficient to reconvey the title to Activated Sludge, Limited."
9. "The same exhibits were in evidence in this case."
10. "Consequently, it was known long prior to the decree that plaintiff's title depended upon an assignment by Activated Sludge, Limited, made after cancellation of a prior limited assignment or license to Guthard."

It is quite clear to us that, in making the statement upon which the defendant-petitioner bases its contention, what Judge Lindley had in mind was simply this: that the plaintiff had elected not to controvert any of the allegations, of the defendant's petition to vacate and reopen, by any affidavit of any party or the officer of any party or any attorney or counselor therefor, or by any witness whatsoever, except only in so far as the formal affidavit of Mr. Horton identified records of the Sanitary District of Chicago and the records of the various litigations prior to the

filing of the defendant's petition for leave to present its motion to the District Court. In his opinion Judge Lindley, in fact, said that "the court has had complete access and recourse to the documentary and parol testimony contained in the voluminous record of the cause."

When, therefore, Judge Lindley said in his memorandum-opinion that:

> "The issue presented is the same as if the petition had been filed and its sufficiency were attacked by motion to strike or dismiss"

he meant, and he could have meant only, that the plaintiff had not been heard by affidavit or otherwise upon the merits of the matters which constituted the subject matter of the defendant's petition to vacate and reopen.

Our reason for alluding to this matter at the outset of this brief is to say to this court, as we said to the Court of Appeals, that it is not bound,—as neither the Court of Appeals nor the District Court were bound—to confine itself to the allegations of the defendant's petition. No court, upon such a petition to vacate or reopen, as is now sought to be submitted to this Court, is bound to accept its factual allegations for the purpose simply of testing the sufficiency of those allegations,—as upon a demurrer or a motion to dismiss a bill of complaint.

It is only by the employment of this clever stratagem for eliminating from "the record herein" and from this Court's consideration, all of the great mass of factual evidence in contradiction of the defendant's petition to vacate the decree and reopen the case, that counsel for the defendant-petitioner are able to present to this Court a more or less blood-curdling narrative of "information and belief" (nothing more) with which to contrast well settled and undisputed principles of law.

A Few of the More Salient and General Facts.

In spite of the fact that the petition for a writ of certiorari herein purports to list three parties as "plaintiffs-respondents," there is, in fact, but a single plaintiff-respondent herein, namely, Activated Sludge, Inc. Ever since January 25, 1928, there has been only this one plaintiff to the patent infringement cause of action. This brief is filed on its behalf in opposition to the petition for writ of certiorari. As we shall show herein, there is no reason for allowance of the writ.

This is a patent infringement suit in which there never have been any conflicting decisions between circuits. In fact, all of the decisions of every court where the patents in suit have been presented, have been uniformly, and without exception, decided in favor of the plaintiff.

There is no matter of general public importance presented, because the patents in suit have long since expired and the defendant is the only party against whom a suit is pending. More than one hundred and fifteen municipalities have recognized the validity of the patents in suit and have taken licenses under them.

There is presented no question of conflict in deciding a rule of law, because the decision which is sought to be reviewed simply decided a long list of factual controversies,—contrary to petitioner's contentions.

As this Court has stated many times, it is important that the Court be consistent in not granting the writ of certiorari

> "except in cases involving principles the settlement of which is of importance to the public as distinguished from that of the parties, and in cases where there is a real and embarrassing conflict of opinion and authority between the circuit courts of appeal. The present case certainly comes under neither head."

Layne & Bowler Corp. v. *Western Well Works*, 261 U. S. 387, 393.

This case, like that cited, "certainly comes under neither head".

This Is the Third Attempt to Obtain Certiorari in this Litigation, Certiorari Having Already Been Twice Refused.

This case has now been pending in the courts for more than sixteen years. The original bill of complaint was filed on September 19, 1924 by Edgar C. Guthard and Activated Sludge, Limited, a British corporation, as plaintiffs. At the time the original complaint was filed, Activated Sludge, Limited, was the owner of the legal title to the patents in suit, all of which related to processes and apparatus for the treatment of sewage. Edgar C. Guthard was the holder of a somewhat limited exclusive license thereunder. On January 27, 1927, the Guthard license was terminated and canceled. On February 24, 1927, Activated Sludge, Limited, the British corporation, assigned all of the right, title, and interest in and to the patents in suit, to the present sole plaintiff, Activated Sludge, Inc., a corporation of Delaware.

On January 25, 1928, Activated Sludge, Inc., filed in this cause an original bill in the nature of a supplemental bill of complaint. It set forth the facts with respect to the transfer of title to the patents, pending the suit. The District Court dismissed the original bill in the nature of a supplemental bill of complaint, one reason given being that the defendant had filed, and there was pending against the original plaintiffs, a counterclaim charging acts of harassment by reason of infringement notices and the like, which said original plaintiffs were alleged to have caused to be

sent out. Upon appeal, the Seventh Circuit Court of Appeals reversed the order of the District Court on May 16, 1929, and held that the pleading filed by Activated Sludge, Inc., was a good pleading, and that the original plaintiffs, Edgar C. Guthard and Activated Sludge, Limited, could be retained in the case as cross-defendants to the defendant's counterclaim, even though the new plaintiff, Activated Sludge, Inc., would be the only plaintiff upon the patent infringement claim. The opinion of the Seventh Circuit Court of Appeals upon that appeal is reported in 33 Fed. (2d) 452.

The First Petition for a Writ of Certiorari.

In the meantime, Activated Sludge, Inc. had filed a complaint against the City of Milwaukee, charging infringement of the patents which are here in suit. The defendant in that case was represented by the same counsel who then represented the present defendant, some of whom still represent the present defendant. The real record is replete with evidence that the defendants in the two cases acted in full concert and with full knowledge of the proceedings and proofs in both cases.

The suit against the City of Milwaukee was first reached for trial. After a long trial and voluminous briefs, the District Judge on February 7, 1933, filed a 68 page printed opinion, which is not reported, finding the patents in suit to be valid and infringed, and holding that they were owned by the sole plaintiff, Activated Sludge, Inc., and granting the relief prayed. On appeal, the decree of the District Court was affirmed by the Seventh Circuit Court of Appeals on March 2, 1934, with the exception that an injunction against the defendant was refused on the ground that such injunction might be injurious to public health and

welfare. The opinion of the Seventh Circuit Court of Appeals on that appeal is reported in 69 Fed. (2d) 577.

On July 9, 1934, the City of Milwaukee filed a petition for certiorari in this court, together with a supporting brief and the eight-volume record comprising 6287 pages. That was No. 165 of the October Term, A. D., 1933. Respondent's brief was filed on October 1, 1934, and certiorari was denied on October 8, 1934, 293 U. S. 576.

The Second Petition for a Writ of Certiorari.

The present case against the Sanitary District of Chicago was reached for trial on May 17, 1932, and was subsequently tried upon the original bill in the nature of a supplemental bill of complaint filed by Activated Sludge, Inc., and upon the counterclaim of defendant against Edgar C. Guthard and Activated Sludge, Limited. On October 18, 1934, the District Court filed an opinion reported in 8 Fed. Supp. 329, and on February 8, 1935, entered a decree finding valid and infringed, the patents in suit Nos. 1,247,540, 1,247,542, 1,282,587, 1,286,017 and Re. 15,140. The decree also held that Activated Sludge, Inc., was the owner of the patents and of all rights thereunder. The decree also dismissed *finally* the counterclaim against Edgar C. Guthard and Activated Sludge, Limited. No appeal was taken from this latter portion of the decree, and Edgar C. Guthard and Activated Sludge, Limited, were finally dismissed from this suit, and have not been parties in any respect since February 8, 1935.

Upon an appeal to the Seventh Circuit Court of Appeals from so much of the decree as related to patent infringement, the decree of February 8, 1935 was affirmed in all respects, the court's opinion of June 16, 1937, being reported in 90 Fed. (2d) 727.

On September 13, 1937, the defendant herein filed a petition for certiorari and supporting brief in this court, No. 407 of the October Term, 1937. At the same time, there was also filed a nine-volume record comprising 5817 pages. Respondent's brief was filed on October 8, 1937, and certiorari was refused on October 25, 1937, 302 U. S. 736.

This Third Petition for a Writ of Certiorari.

Defendant's present petition for certiorari is, therefore, the third attempt by defendant's counsel to have the subject matter of this case reviewed by the Supreme Court of the United States.

In both of their earlier attempts, the contention has been made that it was a matter of great public importance, and that in each case the Seventh Circuit Court of Appeals had ignored earlier opinions of this court and had decided questions of law differently than had other courts. In each case, it was shown that these contentions were quite contrary to the facts, and were without support. In the present third attempt to obtain a writ of certiorari, it is again urged that this matter is of great public importance, and it is again urged that the Seventh Circuit Court of Appeals has ignored earlier opinions of this court and has decided questions of law differently than have some other courts.

The fact is, that this case is of no importance to any but the parties hereto. All of the patents in suit have long since expired, and there is no suit pending, or possible, against any other party alleging infringement of those patents.

The fact is, that in this case the decision by the District Court, and the affirming decision by the Seventh Circuit Court of Appeals, which is sought to be reviewed, do not

involve any conflict or dispute whatsoever with any decisions or rules of law laid down by this court or by any Circuit Court of Appeals.

The fact is that defendant's contentions now presented in this case, were all decided against defendant, both by the District Court and by the Circuit Court of Appeals solely upon factual questions and not at all upon any controverted legal principles.

The entire dispute which defendant seeks now to present to this Court is a factual dispute. It does not involve a single disputed question of law. Like the two earlier attempts for certiorari, this present attempt to prolong this sixteen year old litigation should likewise be refused.

The Questions Which Were Decided by the Seventh Circuit Court of Appeals and Which Petitioner Now Seeks to Review Were Factual Questions. In Its Petition to this Court Defendant Pretends that Its Disproved Contentions Are Facts and Ignores the Contrary Findings of the Courts as to the Actual Facts.

After this court refused to grant a writ of certiorari in this case on October 25, 1937, the mandate of the Seventh Circuit Court of Appeals affirming the decree of February 8, 1935, was duly issued. Thereafter proceedings were commenced looking to a determination in an accounting of the profits and damages which might be due to the plaintiff by reason of defendant's adjudged infringement.

While these proceedings were pending, the defendant on October 21, 1939, applied to the Seventh Circuit Court of Appeals for leave to present to the District Court a motion for leave to present a petition to reopen the interlocutory decree of February 8, 1935, to the end that

alleged newly discovered evidence might be introduced with a view of vacating the interlocutory decree and dismissing the suit. On January 20, 1940, the United States Circuit Court of Appeals for the Seventh Circuit granted leave to defendant to present its said motion to the District Court, specifically admonishing both court and counsel, however, that it had not passed upon or considered any of the issues presented upon the petition, and saying:

> "Whether petitioner has been diligent, whether the newly discovered evidence is material, or if material merely cumulative, and other questions which may be found essential to the granting of any relief, must be determined by the District Court. The granting of this application is made with the clear understanding that we have not considered the merits or the rights of the petitioner to the relief it seeks. Determination of the merits of the application is entirely for the District Court. It is perfectly free to grant or refuse the hearing, and it must determine the effect of such evidence. The leave which we grant must be so construed by counsel and the District Court" (R. p. 436).

After this consent by the Seventh Circuit Court of Appeals, the defendant applied to the District Court for leave to file its petition to reopen the interlocutory decree, to the end that alleged newly discovered evidence might be introduced. That petition appears at page 3 *et seq.* of that part of the record which the petitioner has presented to this Court.

The Purely Factual Character of Every Question and Contention.

Briefly summarized, the petition alleges that the defendant had only recently discovered that Albert W. Dilling, a former chief engineer of the defendant, had participated in planning or recommending or constructing the sewage

treatment plants which were eventually found to infringe the patents in suit, and that after termination of his employment by the defendant, Mr. Dilling, together with three individuals, including Mr. Guthard, had been instrumental in securing for Mr. Guthard, certain license rights under the patents in suit. The defendant's petition asserted the fact to be that Mr. Dilling had at one time been connected with the equitable ownership of Guthard's license rights under the patents in suit, and that Dilling's short term equitable interest had been carefully concealed from the defendant by a long term, carefully planned conspiracy, in which the present plaintiff, Activated Sludge, Inc., was alleged to have been a participant. Although Activated Sludge, Inc. was the only plaintiff at the time said petition was filed, it, together with Edgar C. Guthard and Activated Sludge, Limited, former plaintiffs, and Albert W. Dilling, Franklin Mayo, Albert G. McCaleb, Activated Sludge Processes of America, and others who at no time had been parties to this suit, are jointly lumped together by defendant in said petition, and constantly referred to as "the plaintiffs".

The petition alleges that Dilling and his associates obtained license rights from Activated Sludge, Limited, and that the rights in effect amounted to an assignment of title to the patents in suit to Edgar C. Guthard as trustee for Dilling and his associates. The petition alleges that "the plaintiffs" in their conspiracy to conceal the presence of Dilling in this enterprise, prepared documents attempting to transfer title to the patents in suit back to Activated Sludge, Limited, from which the title of Activated Sludge, Inc. was derived, but which were ineffective to do so. Defendant asserted, therefore, that title to the patents in suit did not rest in Activated Sludge, Inc., the plaintiff, but actually remained in Activated Sludge Processes of America, a so-called Massachusetts Trust form of organization,

of which Albert W. Dilling, Edgar C. Guthard, Franklin Mayo, and Albert G. McCaleb, were the beneficiaries.

It was the contention of defendant in its petition that the attempts by "the plaintiffs" to conceal the one-time interest of Dilling amounted to such inequitable conduct that if the facts had been presented at the trial the complaint would have been dismissed because of "the plaintiffs' " unclean hands and sullied conduct.

Activated Sludge, Inc., in opposition to the petition so presented to the District Court, presented no new evidence or testimony, but filed a notice stating that at the hearing it would rely upon the records, briefs, and transcripts of proceedings which were then on file in the United States District Court for the Northern District of Illinois, the United States District Court for the Eastern District of Wisconsin, and the United States Circuit Court of Appeals for the Seventh Circuit, in the previous litigations involving the City of Milwaukee and its Sewerage Commission, and the Sanitary District of Chicago. This notice of the material upon which the plaintiff would rely, appears at pages 105 and 106 of the so-called "record" presented by the petitioner. It is clear from this notice that the records in all of those cases were part of the record upon which the petition presented to the District Court was finally denied. Yet none of these records and transcripts are included in the "Transcript of Record" which the defendant has now filed in this court in support of its petition for a writ of certiorari. There is not, therefore, before this court the material upon which the decisions of the District Court and of the Seventh Circuit Court of Appeals were based.

The records in those previous litigations as supplemented by the records identified by the plaintiff's notice herein, do prove conclusively that the petitioner's contentions were without foundation in fact. For instance:

1. The petition asserts that defendant's infringing plants were built under the supervision of Albert W. Dilling (R., p. 7). The record shows (R., p. 437-439 and exhibits cited), and the District Court and the Court of Appeals both found therefrom (R., p. 892, 893, 920), that the infringing plants were designed and built in their entireties either before Dilling was ever employed by defendant, or after he had left its employ.

2. The petition asserts that Dilling was responsible for the adoption of the infringing apparatus and process in the defendant's "North Side plant" (R., p. 7). The record shows (Certiorari Record No. 407 of 1937, pp. 1583-4), and the District Court and the Court of Appeals both found therefrom (R., pp. 893, 920), that the "North Side plant" was designed and recommended by an independent commission of engineers, specially selected for that purpose, and which did not include Dilling.

3. The petition alleges that the defendant's plans to build extensive sewage treatment works became known in some confidential manner to Mr. Dilling while he was in defendant's employ (R., p. 7). The record shows (Certiorari Record No. 407 of 1937, pp. 1076-1081), and the District Court and the Court of Appeals both found therefrom (R., p. 895, 896, 920), that those general plans had been adopted and had been given wide publicity many years earlier.

4. The petition asserts that the defendant had no knowledge that Dilling had ever had any interest, or claimed any interest, in the patents in suit, until immediately before it presented its petition (R., p. 3, 9, 14). The record shows, (R., p. 350, 351, 371,) and the District Court and the Court of Appeals both found

therefrom (R., pp. 888, 889, 920), that Dilling's claim to an interest had been a matter of public record for many years prior to the filing of the petition, and that defendant had had express written notice thereof on January 7, 1936, nearly four years before defendant's petition alleging "newly discovered evidence" was presented, and again on July 7, 1938, a year and a half before defendant's petition was presented.

5. The petition alleges that it was not until immediately prior to the presentation of the petition (R., p. 3, 9) that defendant learned "the facts" upon which it argued that plaintiff did not have good title to the patents in suit. The record shows, (R., pp. 358-369) and the District Court and Court of Appeals both found therefrom, (R., p. 888, 920) that the same argument could have been made at the trial and in fact the same counsel made precisely the same argument relative to title in precisely the same language in a brief filed in the Milwaukee litigation more than two years earlier.

6. The petition asserts that defendant learned only shortly prior to presenting its petition (R., p. 35), that the Guthard license was, in fact, an assignment and had never been effectively reassigned. The record shows (R., p. 355), and the District Court and Court of Appeals both found therefrom (R., p. 887, 920), that defendant's counsel had raised that very question in 1929, ten years earlier, and had made written notations thereof which appear in the record but that the then counsel for the defendant had discarded the inquiry at that time as not worth pursuing.

7. The petition asserts that "the plaintiffs" (plural) suppressed and concealed material evidence (R., pp. 35, 36). The record shows (R., pp. 414, 432

and portions cited), and the District Court and Court of Appeals both found therefrom (R., pp. 885-899, 920), that each item of evidence alleged to have been suppressed and concealed had always been readily available to anyone who might think it material, but that defendant had made no effort to introduce it in spite of the fact that it had had actual notice of its existence for many years prior to the trial of the cause.

8. The petition asserts that two of defendant's witnesses testified falsely at the trial (R., p. 22). The record shows (R., pp. 347-350) and the District Court and the Circuit Court of Appeals both found therefrom (R., pp. 899, 920) that these witnesses did not give false testimony.

The foregoing are a few of the principal assertions made by defendant's petition to vacate the interlocutory decree on the ground of "newly discovered" evidence. All of these assertions were shown conclusively by the records in the prior litigations to be wholly unfounded. They are sufficient, however, to demonstrate to the court that the questions which petitioner would like this court to review by certiorari, were, in fact, all factual questions which have been uniformly decided contrary to petitioner's assertions.

That the contentions and assertions made in defendant's petition were completely disproved by the contents of the record in this cause and in the earlier litigations, without the introduction of any new evidence or testimony, is thoroughly well known to petitioner. The fact that these assertions were completely disproved by the records in the prior litigations was well known to the Circuit Court of Appeals for the Seventh Circuit. There was never any additional testimony taken therefore in the District Court to disprove the assertions and contentions made

in the defendant's petition. There has never been any misapprehension on that score by any of the parties or courts which have had to do with this matter. When, therefore, the petitioner asserts to this court that the Circuit Court of Appeals for the Seventh Circuit made an erroneous statement in its opinion that the District Court heard voluminous evidence, petitioner is deliberately attempting to mislead this court into the belief that the Court of Appeals erroneously thought that new evidence and testimony had been taken before the District Court. The fact is that the District Court did hear "voluminous evidence" in opposition to defendant's petition, but that "voluminous evidence" had been heard and received many years earlier. This was all thoroughly well known to the Circuit Court of Appeals for the Seventh Circuit.

Even the Petitioner's Arguments Are Necessarily Arguments of Fact,—in Contradiction of the Findings of the District Court and the Court of Appeals.

Turning to the brief which the petitioner presents to this court in support of its petition for a writ of certiorari: it is at once apparent from the reasons there given that all of the questions which the petitioner now seeks to review were, in fact, mere factual questions. Section 1 of defendant's argument, at page 19 of its brief, is that

> "the respondents should be barred from all relief in this suit on account of their sullied conduct in suppressing and concealing evidence from the petitioner and courts, and it makes no difference that such evidence, if it had been known to and introduced by petitioner during the trial, might not have affected the result."

The conclusive answer to that primary argument made in petitioner's brief, is that the District Court and the

Circuit Court of Appeals for the Seventh Circuit have found from the records that "the respondents" have not been guilty of "sullied conduct," and that evidence has not been suppressed or concealed by "the respondents," or from the petitioner or the courts.

In presenting its argument with respect to the *Keystone Driller* cases, the petitioner assumes that the respondent has been guilty of suppressing and concealing evidence. However, the District Court and the Court of Appeals have both found the facts to be otherwise. If the courts have been right in their determination of the facts, then the principle of the *Keystone Driller* cases cannot be applicable to this case, in which there has been no suppression or concealment of evidence.

The petitioner's second point asserted at page 26 of its brief, is that

> "The respondents should be barred from all relief in this suit for the reason that it was institgated and prosecuted through the action of A. W. Dilling, former chief engineer of petitioner, who learned about the Activated Sludge patents, the sewage disposal plants found herein to infringe said patents and petitioner's vulnerability to patent litigation during his employment by petitioner."

The conclusive answer to this second contention of defendant is that the District Court and the Court of Appeals for the Seventh Circuit have both found from the records available to them that this suit was not instigated and prosecuted by Albert W. Dilling, and that whether Dilling did or did not learn about the Activated Sludge patents or defendant's sewage disposal plants, or its general plans for constructing sewage disposal plants, was in any event immaterial because those matters were given the widest possible publicity by the petitioner long prior to Dilling's employment by it and were available to every member of the public.

The third argument made by petitioner, commencing at page 30 of its brief, is that

> "Even though it may be argued that Activated Sludge, Limited, or Activated Sludge, Inc., is the equitable owner of the patents in suit (which is not true) it is well settled that the equitable owner of patents cannot maintain a suit for their infringement."

The conclusive answer to this argument is that the District Court and the Court of Appeals did not find that plaintiff's title to the patents in suit rested upon mere equitable ownership, but found and concluded that plaintiff had the full legal title to the patents in suit, and that the substance of the very argument now advanced upon this point could have been presented, and was actually raised, by the petitioner more than a decade earlier.

The three "arguments" which we have quoted are the only reasons which petitioner presents for the grant of a writ of certiorari. Clearly, the purpose of petitioner is not to correct any error of law or to correct any conflicts of opinion—the entire purpose of petitioner is to have this Court review questions of fact which have been uniformly decided contrary to petitioner's assertions.

Each of the arguments and reasons presented by the petitioner is premised upon an assertion or contention of fact which is precisely contrary to the facts as they actually exist, and as they have been found to be, both by the District Court and by the Circuit Court of Appeals for the Seventh Circuit. The conclusive answer to each of petitioner's contentions is found in the opinions of those courts. We have, therefore, reprinted the opinions as an appendix to this brief, precisely as the opinions appear in the petitioner's "record" commencing at pages 920 and 885, respectively.

As is immediately apparent from a reading of the opinions of the District Court and of the Circuit Court of Appeals for the Seventh Circuit, and from a comparison of

these opinions with the contentions advanced in the petition, the petitioner's only object, upon a writ of certiorari must be merely to have this Court review the evidence and the findings and inferences which the District Court and Court of Appeals have drawn therefrom, and to reach the conclusion that the facts are not what the lower courts have found them to be,—but rather what the petitioner now asserts them to be.

As this Court said in *General Talking Pictures Corp.* v. *Western El. Co.*, 304 U.S. 175, 178:

> "Granting of the writ would not be warranted merely to review the evidence or inferences drawn from it. Southern Power Co. v. North Carolina Pub. Serv. Co., 263 U.S. 508, 68 L. ed. 925, 926, 44 S. Ct. 164; United States v. Johnston, 268 U.S. 220, 227, 69 L. ed. 925, 926, 45 S. Ct. 496. Moreover, the decision on that point rests on concurrent findings. They are not to be disturbed unless plainly without support."

In this case, petitioner's assertions of conspiracy, fraud, and deception, have been found by both the District Court and the Court of Appeals to be without foundation in fact. In *United States* v. *Chemical Foundation*, 272 U.S. 1, 14, this Court said:

> "But both courts found that the United States failed to establish any conspiracy, fraud, or deception alleged. Findings of fact concurred in by two lower courts will not be disturbed unless clearly erroneous."

It has been the invariable practice of this Court to deny writs of certiorari which seek merely to review factual questions. Many times even after allowance of the writ, such cases have been dismissed upon the ground that the writ was improvidently granted.

Wisconsin Electric Co. v. *Dumore Co.*, 282 U.S. 813
Houston Oil Co. v. *Goodrich*, 245 U.S. 440.

Since the defeated defendant's petition for a Writ of Certiorari presents, in its real essence, merely a contra-

diction, "on information and belief," of the facts found by the Circuit Court of Appeals for the Seventh Circuit and the District Court, we submit that the petition for a writ of certiorari should be denied.

LYNN A. WILLIAMS,
WARREN C. HORTON,
Counsel for Respondent,
Activated Sludge, Inc.

APPENDIX.

Opinion of the United States Circuit Court of Appeals for the Seventh Circuit.

March 27, 1941

Before Sparks and Major, Circuit Judges, and Campbell, District Judge.

Sparks, Circuit Judge. This appeal is from an order of the District Court denying leave to defendant to file a petition to set aside, vacate and reopen an interlocutory decree of February 8, 1935. That decree was affirmed by this court June 16, 1937. 90 F. 2d 727. On January 20, 1940, this court, on defendant's petition in the original cause, granted permission for defendant to petition the District Court for leave to file the petition here involved. The District Court after hearing voluminous evidence denied leave to file such petition, and from that order this appeal is prosecuted.

Accompanying this order the District Court filed its written opinion (33 Fed. Supp. 692) in which it set forth the pertinent facts at length, and decided every question presented here in accordance with our views. To rewrite them would only encumber the record and the printed reports.

The order is affirmed.

Opinion of the United States District Court for the Northern District of Illinois, Eastern Division.

MEMORANDUM UPON MOTION OF DEFENDANT FOR LEAVE TO FILE PETITION TO REOPEN INTERLOCUTORY DECREE, VACATE SAME AND DISMISS THE SUIT.

LINDLEY, Judge.

The court heard oral arguments on March 2, 1940, upon defendant's motion for leave to file a petition to reopen the decree of infringement entered herein February 8, 1935, submit allegedly newly discovered evidence, vacate the decree and dismiss the suit. Since that time, under permission of the court, voluminous briefs have been filed, the final and concluding memorandum having been received on June 25. The court has had complete access and recourse to the documentary and parol testimony contained in the voluminous record of the cause.

The issue presented is the same as if the petition had been filed and its sufficiency were attacked by motion to strike or dismiss. Defendant grounds its motion upon two premises: First, that the suit should be dismissed for the reason that it was inspired, filed and prosecuted through the action of one Dilling, formerly chief engineer of defendant, who, it is alleged, learned the facts concerning the vulnerability of defendant to patent litigation under the patents here involved while employed by defendant. The legal proposition relied upon is that one who, during the course of his employment, learns of vulnerability of his employer to litigation cannot, after his employment ceases, instigate prosecution of such litigation, whether his knowledge concerning the vulnerability be confidential or otherwise. The second contention is that Activated Sludge,

Inc., plaintiff, who succeeded in the litigation culminating in the decree of infringement, did not have title to the patents in suit when it became party plaintiff or when the decree was entered and, being without title, if the facts had been presented, could not properly have succeeded.

In support of these two bases for relief, defendant avers that the facts supporting each, were concealed by plaintiff and its counsel and came to the notice and knowledge of defendant only long after the entry of the decree and shortly prior to the filing of its motion. Consequently, defendant asserts it is not chargeable with negligence in failing to make earlier discovery and presentation of the evidence.

Plaintiff insists that defendant has not brought itself within the limitations imposed upon persons seeking vacation of a decree, rehearing or leave to file a bill of review, in that the allegedly newly discovered evidence was known to defendant or procurable by it at the time of trial and was not presented at the earliest practical moment after discovery and that at all events the evidence is immaterial and irrelevant to the issues and not of such character as to justify any action other than the decree entered. It disputes the correctness of the proposition concerning the lack of right of a former employee to take advantage of the vulnerability of his former employer, avers that the facts do not justify the conclusion that Dilling owed any duty to defendant at the time of his alleged breach of fiduciary obligation and that, even if the facts alleged concerning Dilling's acts were true, they are not such as to justify any rehearing. Each party submits subordinate propositions which will be noted in the course of this memorandum. The pertinent facts will be discussed in like course.

The petition tendered and leave to file which is asked is like in its legal connotation to the ordinary petition for

rehearing, motion for new trial or bill of review and the rules governing each are the same. Any such application must disclose the new testimony, the names of the witnesses, if known, and if not, the means by which the evidence is to be procured, the character of the documentary evidence relied upon and the fact that the evidence has come to light since the hearing and was unknown and could not reasonably have been ascertained for use at the hearing. The evidence may not be merely cumulative. It must be such as would have been competent, relevant, material and of such character as would probably have changed the result reached. If it is apparent that the new facts were known in time for presentation at the hearing or reasonably ascertainable by the exercise of due diligence, the applicant cannot succeed. *McLeod et al.* v. *City of New Albany,* 66 Fed. 378 (C. C. A. 7); *Obear-Nester Glass Co.* v. *Hartford-Empire Co.,* 61 Fed. (2d) 31 (C. C. A. 8); *National Brake & Electric Co.* v. *Christensen,* 278 Fed. 490 (C. C. A. 7); 21 C. J. 718, 719; *J. B. Inderrieden Co.* v. *Gill,* 373 Ill. 180.

Defendant's contention that plaintiff was without title rests largely upon the premise that plaintiff took its title as assignee of Activated Sludge, Limited, subject to an outstanding license previously made to Guthard. Defendant insists in this respect that the agreement with Guthard was in legal effect an assignment of title and that its subsequent cancellation and termination by Guthard did not thereby revest in Activated Sludge, Limited, the owner of the patents, any title which it could thereafter assign to plaintiff.

Bearing upon these contentions, it is necessary to observe that a suit similar to this for infringement, in favor of the same plaintiff against the City of Milwaukee, was pending at all times after institution of this cause, the trial occur-

ring in 1929, four years prior to that of the instant suit. Counsel for defendant in this trial participated actively in that trial also. There plaintiff proved its title, first by assignments by the original patentee to Activated Sludge, Limited, and then by assignment by the latter company to Activated Sludge, Inc., plaintiff. At that time the court received in evidence the license or assignment from Activated Sludge, Limited, to Guthard, and a modification thereof, both of which were later received in evidence by this court at the trial of this cause. This was the agreement which plaintiff contends was later terminated by Guthard's cancellation. That Guthard had made an express cancellation was known to all counsel, as formal cancellation appeared on the instrument. Furthermore the document bears a memorandum in the handwriting of counsel for defendant, raising a question as to whether such cancellation was sufficient to reconvey the title to Activated Sludge, Limited. The same exhibits were in evidence in this case. Consequently it was known long prior to the decree that plaintiff's title depended upon an assignment by Activated Sludge, Limited, made after cancellation of a prior limited assignment or license to Guthard. If there were any reason in law why such a cancellation did not revest in Activated Sludge, Limited, full title of the patents, that question arose immediately upon acquisition of knowledge of the fact. If plaintiff's title was defective because of an ineffectual attempt by Guthard to revest the title in his grantor, then plaintiff had no title and could not maintain the suit. But this knowledge was acquired as early as 1929, and certainly known to all parties in interest at least as early as the trial of this cause in 1934. The defense might have been properly presented at the trial and, if defendant was correct in its contention, the suit would then have been dismissed. It is too late now for this court to entertain any application to reopen the

decree and hear additional testimony upon this question, existing at the time of the trial. The authorities cited are conclusive in that respect. But, in addition, defendant had the opportunity to examine the officers and beneficiaries of Activated Sludge, Limited, of Activated Sludge, Inc., and of Activated Sludge Processes of America in the course of the trial. At no time did it seek discovery, present interrogatories, apply for *subpoena duces tecum,* take depositions or make other attempts to prove facts that would have thrown any additional light upon this question. It is too late now to assert that cancellation of the previously outstanding limited license or assignment was ineffective to reconvey title to Activated Sludge, Limited.

Dilling was at one time one of the beneficiaries of the rights received by Guthard by his limited license or assignment. He had, previously thereto, been chief engineer for defendant, and it is now asserted that he obtained knowledge as to defendant's infringement while he was its engineer and that after his connection with defendant had been dissolved, he proceeded to London, negotiated with the owner of the patents, and became a beneficiary in Guthard's rights. The fact as to his interest, has, it is alleged, only recently come to defendant's attention, for the reason that at no time was it disclosed but was rather in fact suppressed by plaintiff.

In this connection the record shows that attorneys for Dilling, on January 7, 1936, notified defendant that their client had retained counsel for the purpose of prosecuting a suit to procure satisfaction of his claim against defendant arising out of his alleged interest in the patents and accruing because of defendant's infringement. This information was contained in an attorney's lien notice purporting to be served in order to protect Dilling's attorneys as to their fee against any private settlement between their client and defendant. But whatever its purpose or

form, it put defendant on notice at that time that Dilling claimed an interest in the patents and in the right of action accruing from their infringement by defendant. Yet there is no showing in the petition or the evidence submitted that the District then took any steps to investigate Dilling's claim or to bring to the court's attention any facts as to his claim of title or sought in this cause the court's aid in discovering the true facts as to Dilling's interest, if any. There is no showing of any reason why the discovery might not just as well have been made at that time as three years later, if, in accord with the dictates of ordinary prudence, inquiry had then been instituted. It was too late to begin investigation in 1939 as to facts of which defendant was put upon notice three years before.

It appears further that Dilling filed a bill of complaint in the Circuit Court of Cook County against Guthard and his associates, including Activated Sludge Processes of America and Activated Sludge, Inc., wherein he claimed an interest in the patents and in the recovery for their infringement. That bill was a public record, and has been on file since October, 1936. Then, too, Dilling sent to defendant in July 1938, another notice wherein he stated that the rights and ownership of Activated Sludge, Inc., were subject to the prior license agreement in which he, Dilling, had an interest and claimed that Activated Sludge, Inc., was, in law trustee under that agreement for the rights and privileges growing out of it for the use and benefit of Dilling. He informed the parties of the title of the pending cause and the court in which it was pending. Again there is no showing by defendant that it did at that time, at the earliest practical moment, attempt to ascertain the truth or falsity of Dilling's claim. It is too late at this belated date, in the face of these circumstances, to insist that the evidence is newly discovered.

But defendant's proposed petition is defective in another

respect. It does not present anything which, in view of the existing record in this cause, if offered to and received by the court, would in any way justify a change or alteration of the decree. The original bill was filed by Guthard and Activated Sludge, Limited, the original parties plaintiff, and therein it was averred that Activated Sludge, Limited, had acquired, by assignment from the original patentee, entire title to each and all of the patents involved; that thereafter it had granted to plaintiff Guthard the exclusive right and license to make, use and sell the inventions of the patents within four of the United States, including Wisconsin and Illinois, which was still in full force. The evidence shows that Guthard did in fact hold such a license or assignment, but that he had made an agreement with Dilling, Mayo and McCaleb, that they should share with him in the fruits of the possession and title. But, during the pendency of the suit, an original bill in the nature of a supplemental bill was filed in 1927 wherein Activated Sludge, Inc., became the sole plaintiff and Guthard and Activated Sludge, Limited, were dropped as plaintiffs. They remained in the cause only as cross-defendants in defendant's counterclaim. In this supplemental bill, Activated Sludge, Inc., the only plaintiff, asserted that on February 24, 1927, subsequent to the filing of the original bill, Guthard, for a good and valuable consideration, had cancelled any and all agreements then existing between him and Activated Sludge, Limited and terminated his interest in the patents; that thereby his interest and complete title had revested in one of the original plaintiffs, Activated Sludge, Limited; that subsequently, on the same date, the latter, for a good and valuable consideration, had conveyed all of its title to the patents to plaintiff Activated Sludge, Inc., a copy of which assignment had been recorded in the Patent Office, and that plaintiff held the entire title. The evidence disclosed

the original limited license or assignment to Guthard and its cancellation, the latter of which stated that Guthard on January 27, 1927, agreed that all rights of every kind and nature granted to or held by him by virtue of the aforesaid instrument "shall be and are this date cancelled and terminated." The entire document and the cancellation were offered and received in evidence. Thus, as we have seen, defendant was even then in position to contend, if it thought proper, that the cancellation did not work a revesting of the title in Activated Sludge, Limited.

It appears that this cancellation was made because Guthard and his associates were indebted to various parties for moneys advanced, were not able to pay, and expected to receive, in exchange for surrender of their rights, 150 shares of the stock of plaintiff, which agreed to assume and pay the outstanding indebtedness. There had come into existence a so-called Massachusetts Trust in which there were four beneficiaries, Dilling, Guthard, Mayo and McCaleb, under which Guthard was named as trustee. From the so-called articles under which said trust existed, Guthard apparently was the agent of the other interested parties. He called a meeting to act upon the proposal to surrender its rights. There is no showing that Dilling did not have notice of the meeting. He did not attend but the other three directors adopted a resolution authorizing an agreement releasing the trust's interest, in consideration of receipt of shares of stock in plaintiff. The resulting agreement recited that, whereas the trust was possessed of certain rights in the patents and indebted for services and disbursements therefor, the directors had been and were authorized to cancel the agreement and to receive therefor 150 shares of Class C Stock of Activated Sludge, Inc., which would assume and pay the outstanding indebtedness. When this should have been done, the trust was to be deemed to have relinquished all rights and interests.

A formal statement of cancellation and termination was executed. Thereafter Activated Sludge, Limited, Activated Sludge Processes of America and Activated Sludge, Inc., all treated the formerly existing contracts as cancelled and terminated. Neither the trust, Guthard nor Activated Sludge, Limited, thereafter asserted or attempted to assert any title to the patents or interest therein.

Even had the defendant at that time insisted that these facts were insufficient to revest in Activated Sludge, Limited, full title to the patents, it would have failed. If these facts had been presented to the court at the time of the trial, some seven years later, the only effect would have been to cause the court to determine whether plaintiff's title was good. To my mind, it is wholly immaterial whether the trust should be treated as a joint syndicate undertaking, as a common law trust or as a Massachusetts trust. The express agreement of the parties interested was that a three-fourths majority of the directors might act. This they did. Any and all parties interested were, after seven years, estopped to claim that the cancellation did not effectuate what the parties treated it as effectuating.

Even were the cancellation ineffective to reconvey the legal title, the facts and circumstances were such that equitably the contracts were at an end and the legal and equitable interests of any and all character in and to the patents thereafter resided in Activated Sludge, Limited. This court, as a chancellor, would not then have permitted and cannot now permit it to be said by defendant that the action of the parties was not effective to reach the end which they sought to reach. It is quite the general rule that where a written instrument has been redelivered and surrendered to the assignor with the agreement that the original assignment shall be void, this operates at least in equity as a reassignment. In such case, where the instrument is redelivered to and remains in the possession

of the assignor together with its formal cancellation he may recover without proof of formal reassignment to him. No matter what the language, no matter how informal or inapplicable it may seem, if the cancellation and the surrounding circumstances show clearly an intention of the parties to effectuate a transfer supported by a valuable consideration it, with redelivery, equitably at least a retransfer is effectuated. 5 C. J. 938; *In re Kenny*, 269 Fed. 54; *Rupple* v. *Bindley*, 91 Pa. 296; *Moeser* v. *Schneider*, 158 Pa. 412, 27 Atl. 1088.

If Dilling had any right to object that he had not been treated fairly by his associates that was no affair of defendant; that was a question between him and his associates, and if they could not agree, for the court to determine whether Dilling had effectively disposed of his interest and dropped out, as contended by plaintiff, or whether he had retained an interest as contended by him.

From the time of the cancellation and redelivery, acquiesced in by all the interested parties, Activated Sludge, Limited, was owner of the patents and might properly, as it did, assign them to plaintiff. Consequently there was no other necessary party plaintiff and even if the evidence were received, at this belated date it would be wholly insufficient to justify the court in vacation of the decree.

Dilling was engineer of defendant from December 16, 1920, to July 21, 1922. The Des Plaines plant was completely designed and under construction before his employment began. The inclusion of infringing features in this construction, therefore, could not have been due to Dilling. The Calumet plant, likewise found to infringe, was also designed prior to Dilling's connection with the District. The plans, adopted before he became identified with defendant, included use of the activated sludge method. The plant was started in 1920. The decision to use the activated sludge treatment in this as well as Des Plaines

plant was made and the drawings prepared and construction commenced before Dilling became connected with the District. The third plant found to infringe was the North Side Sewage Treatment plant. In the record appears an article by Edward J. Kelly, chief engineer, published in March 11, 1926, in which the author stated that excavation for the North Side plant was started in September, 1923. This was long after Dilling had ceased to be chief engineer, July 21, 1922. During the building and operation of the plant constituting infringement, Dilling was not connected with the District. Prior to his retirement from the office, the Board of trustees had considered the project and had referred the question of character of plant to be built to a commission of well known sanitary engineers, Eddy, Fuller and Hatton. They made a report recommending the activated sludge method for the North Side plant, containing some 100 pages and constituting a part of the public records of the Sanitary District. It was before the court at the time of the trial and Hatton testified that when the report of February 27, 1922, was made by the commission, the members had considered three differen characters of plant and that after "long examination and consideration, the commission, of which I was a member, decided that the activated sludge process was best adapted to that condition." The inspiring cause for adoption of the activated sludge method was this commission's report.

Hatton was also chief engineer of the Milwaukee Sewage Commission. He knew about the activated sludge method. He had long corresponded with the original patentee. He was acquainted with the details of the invention disclosed in the patents and apparently had attempted to induce Milwaukee Sewage Commission to procure a license under the patents. He had been even largely responsible for procuring numerous affidavits of American Sanitary engineers, filed with the Commissioner of Patents, in an effort

to prevent their original issuance. Consequently, he was in position, as a member of the commission, to give to defendant all of the information existent upon the method and the patents. Undoubtedly Dilling had been consulted in the preparation of the plans and after the report of the commission his office probably proceeded with the preparation thereof, but the commission recommended the method and he left before the work was inaugurated.

That both the Milwaukee Commission and defendant entered upon use of the activated sludge processes with their eyes open and that adoption of those processes sprung not from Dilling's brain, but from others, prior to his employment is further apparent from the correspondence between Hatton, member of the commission recommending the processes to the District, and the English owners of the patents involved through the years 1914 to 1921. On November 19, 1914, Hatton wrote Activated Sludge, Limited, that his commission was unable to enter into any tentative contract until further developments. On July 13, 1915, he was advised that the American patents, application for which were then pending, covered certain apparatus and methods and that it was the intention "to work these American patents" through a syndicate with the head office in the states but that the time was not yet right and that in the meantime the owners would grant Milwaukee a license for its first plant for a nominal sum. On July 31, 1915, Hatton wrote that if the activated sludge process should be adopted and result in infringement then the time would be right to discuss royalties. He requested copies of the patents and said again on August 18, that he would give consideration to them "when the right time comes." On January 14, 1916, he again wrote that the district had concluded that it would take the matter up only when it had decided to install the activated sludge process, if the United States patents were granted. Copies

of the British patents and the American applications were mailed to him from time to time. On March 22, 1916, he was advised of a new offer of royalty,—1½ per cent of the actual outlay, and on April 15, he replied that until the patents should be granted in America, he must take the stand that the claims could not be substantiated. On May 15, 1916, the commission advised the Englishmen that the matter of royalty had been postponed until the patents should be issued. On June 20, 1916, the offer of a license was withdrawn. On April 14, 1918, Hatton wrote that his commission considered the terms of the proposal "far from modest." On February 28, Activated Sludge, Limited, wrote Hatton offering Milwaukee a license for its first plant for $25,000. Hatton on June 1, 1921, promised to submit the matter. On June 28 the Activated Sludge, Limited, wrote that the time limit was suspended and on January 16, 1922, that it feared it could not further extend the time for acceptance. On January 24, 1922, Hatton wrote that the commission was not inclined to consider royalties at that time and on March 10, 1922, the offer of license was withdrawn.

Many, if not all these facts were communicated to defendant district on July 21, 1921, when Hatton reported to it that in the year previous the Milwaukee Commission had sent him to England to inspect various methods of sewage disposal, it having had for some years notice from Activated Sludge, Limited, of London that that company was asserting against it liability for royalties for the use of the processes involved in activated sludge sewage disposal and of machinery and equipment used for that purpose. He stated that he had entered into negotiations with Activated Sludge, Limited, for a license, receiving a proposal which he had submitted to the Milwaukee Commission, which had finally determined not to pay any royalty until the validity of the patents involved had been determined.

He solicited the cooperation of the defendant district in full and complete investigation of the patents. At the same time Pearse, sanitary engineer of the District, informed defendant that patent notices had come to the Sanitary District and were in the files of its engineering department and that he had ordered from Washington, copies of all patents issued and relating to activated sludge.

The published proceedings of the Board of Trustees of the defendant district show that on December 1, 1916, the district adopted a preliminary report by Engineer Pearse to the effect that drainage waste could best be handled by the activated sludge process so as to produce an effluent suitable to discharge into the main channel of the district's drainage canal. On April 16, 1917, Pearse speaking for the engineering committee, reported that in making certain recommendations, it had considered only the activated sludge process and that in its judgment the application of such process offered the best promise of solution of the stockyards sewage problem. It recommended that preliminary sketches be expanded and detailed plans prepared. On August 14, the Board appropriated moneys to construct an experimental activated sludge plant. On August 15, work was started on this plant and it was completed in October and put in operation in November, handling 150,000 gallons of activated sludge daily through the year 1916. On April 11, 1918, the engineering committee reported that the then chief engineer had nearly completed the preparation of plans and specifications for the Des Plaines River sewage plant. In 1919 the preparation of plans and specifications for the Calumet plant was in progress. The same year, president of defendant reported that "for nine years" the district had conducted experiments and proved conclusively that pollution could be stopped by the activated sludge treatment. On March 27, 1919, the plans and specifications for the Des Plaines plant

were finally approved and the clerk ordered to advertise for bids for construction. These bids were opened April 24, 1919, and examined by the committee, and on May 1, 1919, the contract was let and the bond approved. This contract provided that the contractor should protect the district against suit for infringement of patents except as to claims for infringement of patents covering the activated sludge process or machinery and equipment used in connection therewith. All similar contracts made thereafter contained a similar clause.

The record thus discloses that the general plan of using the activated sludge treatment had been recommended to defendant as early as November, 1916, and an employee of the District testified at the trial that the work on the Des Plaines or North Side plants were carried out in accordance with these recommendations.

The petition does not disclose that during the time he was with the District, Dilling was employed by the District in any effort to secure a license from the owner of the patents, though their existence was known, but shows that his employment consisted of performing duties of chief engineer. He had the assistance of a sanitary engineer and others, but the installation of activated sludge infringing devices and methods was not initially inspired or carried out by him. The record does not disclose that anything within his knowledge was used in any way as a basis for the prosecution of defendant for infringement or in evidence resulting in the decree. Rather the facts relied upon to constitute infringement were shown by the plants themselves, open to the public, by the equipment therein, by the methods of operation thereof, all as disclosed by various publications, including an article by Mr. Edward J. Kelly on "Progress of Sewage Disposal in Chicago," a pamphlet reprint of an article published in the Engineering News-Record, a pamphlet entitled "Engi-

neering Works''; a reprint by defendant of an article by Langdon Pearse in the Engineering News-Record, photographs of the plants and similar evidence. The exhibits used were available to the public. None of them was confidential and all might have been procured from public sources. There is no showing that any evidence was procured through Dilling.

The direct question is whether Dilling, who, for a comparative brief interlude, due to the changing political complexion of the board of trustees of defendant district, was employed as chief engineer and who, while he was there, knew as any member of the public investigating could have known, that two plants were utilizing the invention of the patents and having seen that a third plant, under the recommendation of a commission of well known engineers, would employ the same inventions, owed a duty to defendant not to become interested in the patents covering the activated sludge process, within a few months after his discharge. According to the averments of defendant and as it claims it has learned since, Dilling went to England shortly after he left the District. There he became interested as a one-fourth holder of a license or assignment for four states, including Wisconsin, and Illinois made to Guthard. Apparently after 1927 he was given no consideration by his associates and, apparently, thereafter he made no move or claim until in 1936, after the decree of this court had been entered, he filed suit against his former associates to obtain a share in the recovery that might be realized by plaintiff against defendant in this action. Whether he had a valid claim or whether he was making a nuisance of himself, to my mind, is wholly immaterial. Even if he were legally entitled to a share of the money, the question is whether, because of that fact of the failure to disclose his interest invalidated plaintiff's decree. I cannot attribute fraud to plaintiff in concealing

the alleged interest of Dilling, for apparently plaintiff and Dilling's former associates have at all times earnestly insisted that he had no interest, and apparently considered his interest wiped out. With the title to the patents reassigned, I cannot attribute fraud to plaintiff in failing to volunteer to the court that Dilling had at one time claimed to have an interest or in failing to say that they anticipated that he might thereafter claim an interest.

If Dilling were an interested party, if he were legally entitled to a one-fourth interest and if he were present as a party holding such interest, what effect would these facts have had upon the decree, if tendered at the time? When Dilling entered the District's employment the latter had already committed the infringement at Des Plaines and Calumet. Nothing that it or anybody else could do thereafter could alter the fact. After his retirement, the District committed the third act of infringement in the North Side plant, but nothing that anybody might do, could change the fact of that infringement, after it had once been committed. Was Dilling then barred from attempting to get an interest in the patents? After the infringement had taken place, partly before he became connected with the company and partly after he left its employment, was he barred from negotiating with the owner of the resulting cause of action for an interest therein? If, knowing of the infringement, he had proceeded to London and bought the patents without advising their owner of the existing infringement; if he had closed the eyes of the owner to the infringement and thereby obtained for a small consideration from the owner, patents which gave him the right to prosecute for the concealed infringement the owner of the patents might well have had cause to complain. But the owner knew, even if it did not know of the actual infringement, that activiated sludge plants had been built in Milwaukee and Chicago; it knew that a cause of action could

be asserted. What duty to the District did Dilling violate? When he left the company a cause of action existed against it for its own trespasses. Was he barred from becoming a part owner of that cause of action? I do not so read the authorities. Had Dilling been employed by the defendant to negotiate with the owner of the patents for a license; had he attempted to sell some persons, trade secrets obtained in a confidential manner while in the employ of defendant, the law would clearly afford defendant a remedy. But the infringement, cause of action for which existed in the patentee, was apparent to him who observed. It could be ascertained from an examination of the plans, the plants and the public documents. The District's liability to the patentee was the same before Dilling's attempt to become interested therein as it was afterward. The purchase by Dilling of an interest did not increase the liability or obligation of defendant. They were the same after his attempt to purchase as before, and nothing that Dilling did or said could increase or lessen its liability for infringement. What Dilling did affected defendant in no wise but affected only the interests of those who were entitled to recover; with that defendant is not concerned. Defendant was deprived of no defenses. Plaintiff's remedy was in no wise affected by Dilling's act. Cases involving the violation of a fiduciary duty help us not at all. One who leaves the employment of another has the right to take with him all the skill acquired and all the information he has received, so long as he takes nothing that is the property of the employer. *Garst* v. *Scott*, 114 Kan. 676. The latter phrase is the key to the solution. If the employee takes nothing belonging to his employer, he is free to act, and, as pointed out, Dilling took nothing except knowledge of the infringement which was in no wise confidential, lessened in no wise defendant's defense and increased in no wise its obligation.

I conclude, therefore, from the face of the record that defendant has not shown proper diligence; that it has not disclosed the allegedly new testimony, the means of procuring same or the names of witnesses; that it could, by reasonable diligence, have ascertained everything that it now seeks to ascertain before and at the time of the trial or shortly thereafter and finally that the new evidence is not competent, relevant or material, and that if it were produced and received it would in no wise justify a reopening of the decree.

I do not find that the witnesses Mayo and Guthard gave false testimony. Their testimony related to events occurring a number of years before the time when they testified. They were somewhat uncertain but I find nothing intentionally false. Clearly, they testified to nothing that would justify a rehearing.

Accordingly the motion for leave to file the application is denied.

Entered this 5th day of July, A. D. 1940.

WALTER C. LINDLEY,
Judge.

23

FILED
MAY 19 1941
CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1940.

No. 984

EDGAR C. GUTHARD, ACTIVATED SLUDGE, LIMITED, and ACTIVATED SLUDGE, INC.,
Plaintiffs-Respondents,

vs.

THE SANITARY DISTRICT OF CHICAGO,
Defendant-Petitioner.

REPLY BRIEF OF PETITIONER, SANITARY DISTRICT OF CHICAGO.

ERNST BUEHLER,
910 South Michigan Avenue,
Chicago, Illinois.

EDMUND D. ADCOCK,
33 North La Salle Street,
Chicago, Illinois.

RALPH M. SNYDER,
105 West Adams Street,
Chicago, Illinois.

ARTHUR C. DENISON,
Union Commerce Building,
Cleveland, Ohio.

WALLACE R. LANE,
105 West Adams Street,
Chicago, Illinois.

ELI E. FINK,
33 North La Salle Street,
Chicago, Illinois.
Counsel for Defendant-Petitioner.

BARNARD & MILLER, 33 S. Market St., Chicago. FRAnklin 0562

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REPLY BRIEF OF PETITIONER, SANITARY OF CHICAGO.

This reply brief is confined to an answer to the four principal propositions of respondents' brief in opposition to petitioner's petition for a writ of certiorari.

I.

The determination of the questions raised by the petition for a writ of certiorari depends solely upon the legal sufficiency of the Petition sought to be filed below—not upon any disputed facts.

The questions raised in this petition for certiorari relate solely to the right to take evidence to support the allegations of the Petition sought to be filed below, as no

answer or other form of responsive pleading was filed by respondents and no evidence was heard by the District Court.

The District Court stated that the issue presented was the same "as if the petition had been filed and its sufficiency were attacked by motion to strike or dismiss" (R. II—885). The only material defense was based purely upon questions of law with respect to the sufficiency of the Petition. Under these circumstances no dispute of fact could arise. The petitioner argued in the courts below, and now urges, that it is entitled to its day in court, that the Petition should be allowed to be filed and that petitioner should be allowed to take evidence to prove and substantiate the allegations therein made.

The appeal to the Court of Appeals was solely on the issue whether the decree of the District Court denying leave to file the Petition should be reversed.

II.

Petitioner's principal right to relief is grounded upon recently discovered uncontroverted and undeniable acts of suppression and concealment of evidence.

There cannot be any dispute concerning the respondents' acts of suppression and concealment of evidence alleged in the Petition sought to be filed and they are sufficient to justify this Court in granting the relief here sought. The lower courts have not made findings contrary to those ultimate uncontroverted facts and the only issue relates to the legal conclusions drawn by the lower courts from such undisputed facts.

Confining ourselves to those ultimate facts alleged in the Petition sought to be filed on which we base our charge that respondents have been guilty of sullied conduct in

suppressing and concealing evidence, we enumerate some of the facts which have never been and cannot be controverted:

(a) Albert W. Dilling, former Chief Engineer of the Sanitary District of Chicago, shortly after he left petitioner's employment and unbeknown to petitioner, went to England and made an agreement with Activated Sludge, Ltd., then owners of the patents in suit, for the exploitation of the patents in the four states of Illinois, Wisconsin, Indiana and Michigan (R. I—8, 80-81).

(b) Dilling procured as his co-adventurers and associated with him, McCaleb, Guthard and Mayo, and they made an agreement dated May 29, 1924, under which it was agreed that any interest acquired by Guthard in the patents would be held by him as trustee for the four men and this agreement was suppressed by respondents and not discovered by petitioner until lately (R. I—10).

(c) The co-adventurers arranged to have the so-called license agreement of June 23, 1924, run to Guthard as an individual. Dilling's relation to the enterprise was thereby concealed by suppressing Guthard's trust capacity, which we lately discovered (R. I—11).

(d) In the companion agreement of June 23, 1924, Guthard acknowledged that he held the license agreement *as trustee* for himself, Mayo and McCaleb, but this agreement was suppressed by respondents and not discovered by petitioner until lately (R. I—14).

(e) In furtherance of their enterprise, Dilling, McCaleb, Guthard and Mayo entered into a trust agreement dated July 25, 1924, under which they conveyed all their interest in the patents to a Massachusetts trust, Activated Sludge Processes of America, and this agreement was also suppressed by respondents and not discovered by petitioner until lately (R. I—14, 47).

(f) On August 9, 1924, McCaleb wrote Activated Sludge, Ltd. that Mr. Day, then attorney for petitioner, was in England and that if he should communicate with them, Mr. Day should not be given "any inkling that Mr. Dilling is in any way connected with or interested in the matter of establishing your patents in this country." This was not known to petitioner until lately (R. I—16; Petition for a Writ of Certiorari, pp. 7-8).

(g) On August 19, 1924, respondents' counsel stated in their formal notice of infringement to petitioner that Guthard was possessed of an exclusive license under the patents in suit whereas, in fact, the patent rights were possessed by Activated Sludge Processes of America, a Massachusetts trust, in which Dilling had a one-fourth interest (R. I—16-18).

(h) Both the original and supplemental bills of complaint pleaded a false chain of title by failing to allege the assignment of the patent rights to the Massachusetts trust, Activated Sludge Processes of America (R. I—18, 19-20). By showing Guthard as an individual instead of as trustee, Dilling and his associates hoped to, as they did, prevent the discovery of Dilling in connection with the enterprise and thereby succeeded in suppressing and concealing the lately discovered evidence of Dilling's relation to and instigation of the enterprise against petitioner.

(i) The purported cancellation of the license agreement by Guthard was signed by him as an individual instead of as trustee (R. I—21).

(j) Mayo testified in the patent phase of this case that he was general manager of the association relating to the license agreement; that he had a one-third interest; and that there were only three members of the association, himself, Guthard and Mayo, and no one else (R. II—858-9). This concealed the fourth member of the association,

Dilling. The falsity of this testimony was only lately discovered by petitioner (R. I—24-33).

(k) Mayo testified in the patent phase of this case that Activated Sludge Processes of America was not a trust but merely the name under which Guthard operated and that he knew nothing more about it (R. II—873-4). The recently discovered evidence reveals that Activated Sludge Processes of America purported to be a formal Massachusetts trust and that Mayo, Dilling, McCaleb and Guthard signed it (R. I—47).

(l) Mayo testified in the patent phase of this case that Activated Sludge Processes of America was merely an understanding under which his interest was protected and that he did not recall whether or not that understanding was in writing (R. II—874).

(m) Guthard testified in the patent phase of this case that the three owners of the agreement were himself, McCaleb and Mayo, and that it was oral and only a gentlemen's three-party agreement (R. II—877). Petitioner recently discovered that Mayo and Guthard admitted in the Dilling suit that they had testified falsely in the patent phase of this suit (R. I—31-33).

(n) The statement by respondents' counsel in the Milwaukee case that he had produced the assignments giving title (R. II—554). The recently discovered evidence reveals for the first time the suppressed assignment to Activated Sludge Processes of America (R. I—14-15, 48).

(o) The action of respondents' counsel in March, 1938, in the Milwaukee case in misquoting to the Circuit Court of Appeals a document not in the record but recently discovered, being one of the documents concealed, thereby suppressing the relationship of Activated Sludge Processes of America and Dilling to the patents in suit (R. I—109-11).

(p) The action of respondents in having a consent order, most unusual in its terms, entered in the Dilling case ordering the Master's draft report suppressed and all copies thereof destroyed, and under which order all documents, exhibits and transcript of testimony were returned to the respective parties, with the result that to this day petitioner has been unable to obtain any copy of the Master's draft report and does not have access to the transcript of testimony taken in the Dilling case (R. I—33).

Neither the respondents nor the lower courts have denied that any of the foregoing facts occurred. The only dispute is as to the legal significance of such facts. In failing to apply to the undisputed facts the ethical standards established by this Court in *Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240, the decisions of the lower courts are in direct conflict with that decision.

III.

The Record before this Court, contrary to respondents' statements, is the entire record in this proceeding.

The Record before this Court is the same record, with the addition of the subsequent proceedings in the Court of Appeals, which was used before the Court of Appeals. Both parties filed written designation of the record (R. II—908-15) and everything called for by petitioner and respondents appears in the printed transcript certified to this Court.

IV.

The affirmance by the Court of Appeals on the erroneous premise that the District Court had heard voluminous evidence cannot be explained away by such casual argument as is contained in respondents' brief.

The short opinion of the Court of Appeals is copied into the Record at page 920. There the Court of Appeals said:

> "On January 20, 1940, this court, on defendant's petition in the original cause, granted permission for defendant to petition the District Court for leave to file the petition here involved. The District Court after hearing voluminous evidence denied leave to file such petition, and from that order this appeal is prosecuted."

The District Court did not hear voluminous evidence as erroneously stated by the Court of Appeals. As a matter of fact, the District Court heard no evidence whatsoever. On pages 19 and 20 respondents attempt to distort the above language of the Court of Appeals and while admitting that no testimony was heard in the District Court, contend that the Court of Appeals must have been referring to the thousands of pages of testimony previously taken in other phases of the case. The fact remains that the Court of Appeals erroneously concluded that voluminous evidence had been heard in the District Court and that it would not go back of the District Court's findings thereon.

Despite respondents' statements to the contrary (pp. 9 and 12), the subject matter of this petition for a writ of certiorari, relating to matters suppressed by respondents

and only recently discovered by petitioner, could not have been and were never before presented to this Court. The other petition for a writ of certiorari filed in this case in 1937, and the petition filed in the Milwaukee case in 1934, related exclusively to the validity of the patents in suit and their infringements by the plants constructed by the defendants in such cases.

The high standards of ethics announced and applied by this Court in the *Keystone Driller Co.* case are so salutary and in keeping with the modern trend of judicial pronouncements that they should be given effect and be made to apply as well to litigants in the Seventh Circuit as in the Sixth and other Circuits.

Respectfully submitted,

ERNST BUEHLER,
EDMUND D. ADCOCK,
RALPH M. SNYDER,
ARTHUR C. DENISON,
WALLACE R. LANE,
ELI E. FINK,
Counsel for Petitioner.

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